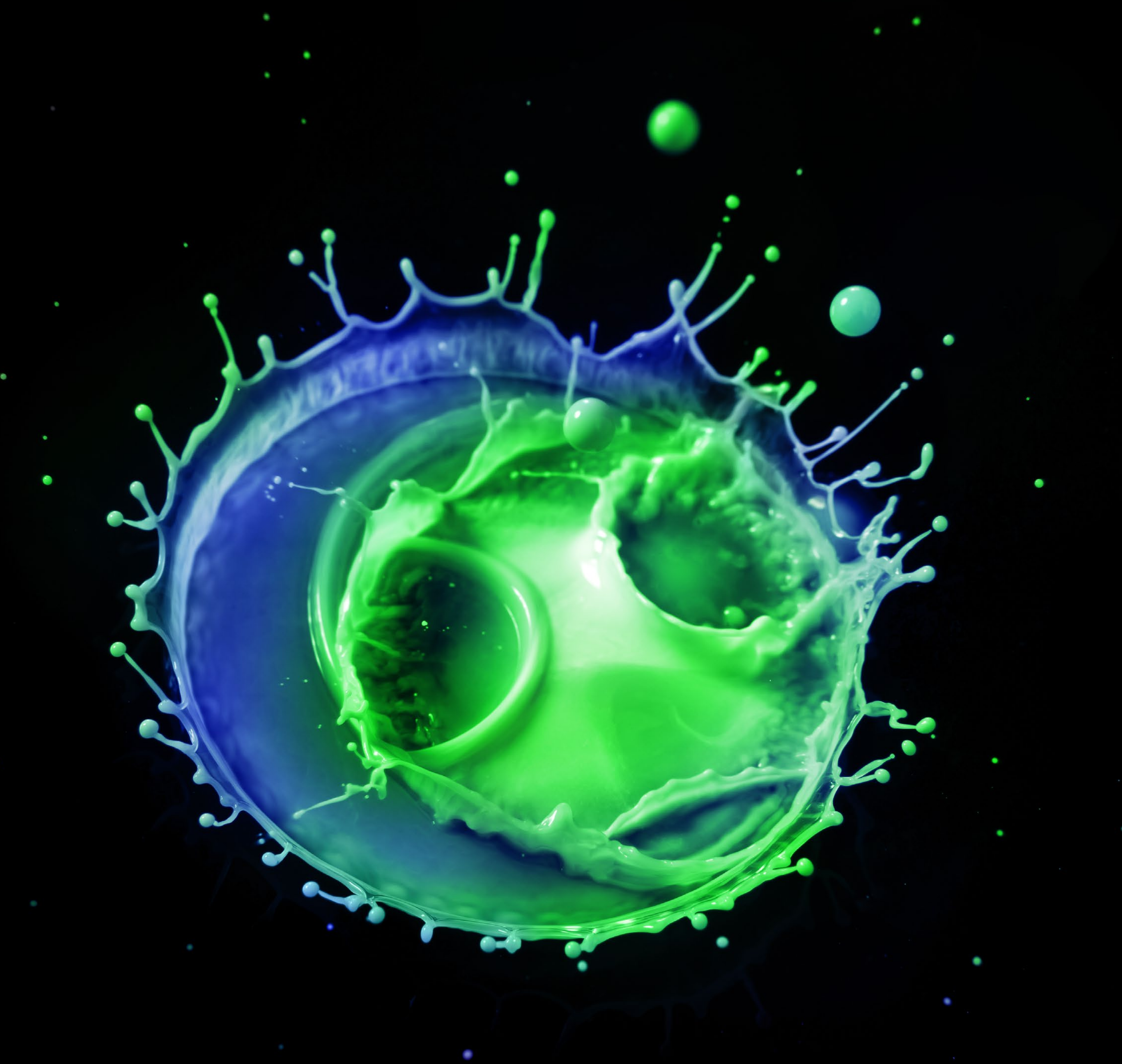
Deloitte.

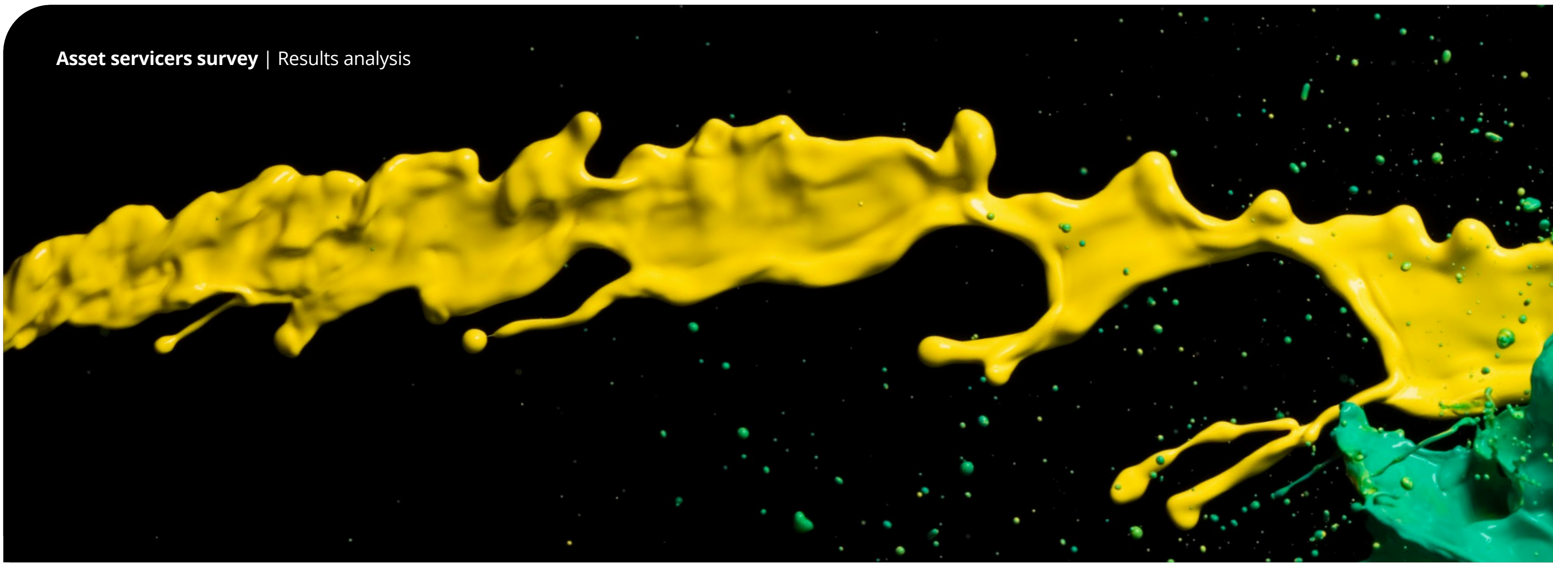
Navigating through the storm
Asset servicers survey

February 2021



Centre of Excellence
for Asset Servicing

Agenda



Executive summary

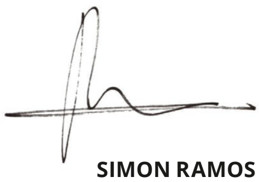
Welcome to the results analysis of Deloitte's Asset Servicers survey, the latest edition of the yearly survey among players of the investment management industry. It is said that successful market players need to have a clear vision of the state of the industry in order to differentiate effectively and stay ahead of the curve. This is why, as part of its Asset Servicing Center of Excellence, Deloitte aims to understand the dynamics of the asset servicing industry, measuring the latest evolutions and anticipating developments still in the pipeline. As a recognized source of market intelligence, Deloitte is thus running alternatively a survey among asset managers and among asset servicers, to understand the hurdles faced by the entire investment management value chain.

The asset servicing and asset management sectors alike face an increasingly unpredictable environment, due to mounting fee pressures, innovative product development, expanding regulations and an unstable macroeconomic background. Last but in no way least, the COVID-19 outbreak disrupted our ways of living, both privately and professionally, as never seen before. Such troubled times should push all actors to review in-depth their operations and reassess their competitive positioning.

This edition saw the participation of 10 global players located in Europe and the US with a combined €74 trillion Assets under Custody (AuC), i.e. approximately 50% of the global amount. The participants are global players from various countries of origin that provide a wide range of services to their clients, including fund administration services, transfer agency services, management services and various ancillary services, relevant to asset managers and final investors.

The results of Deloitte`s survey revealed five major challenges that profoundly impacted the entire investment management value chain. First, asset servicers need to embrace innovation to improve their operational efficiency and to develop better competencies in data management, as required by their clients. Second, investors' increasing appetite for investments that fulfill Environmental, Social and Governance (ESG) criteria requires asset servicers to go beyond their existing capabilities. Third, new operating models may require a thorough reconsideration of outsourced and offshored activities. Fourth, alternative investments are following a structural upward trend; therefore, servicers need to expand and renew their service offering and areas of competence.

Finally, as if this were not enough to fill the agenda for years to come, a virus spread across all continents faster and more severely than any IT malware could ever do. Businesses in all industries, including investment management, had to improvise to face obstacles that would have felt utterly alien a year ago. On a brighter note, the industry proved resilient and proceeds with confidence toward what lies ahead.



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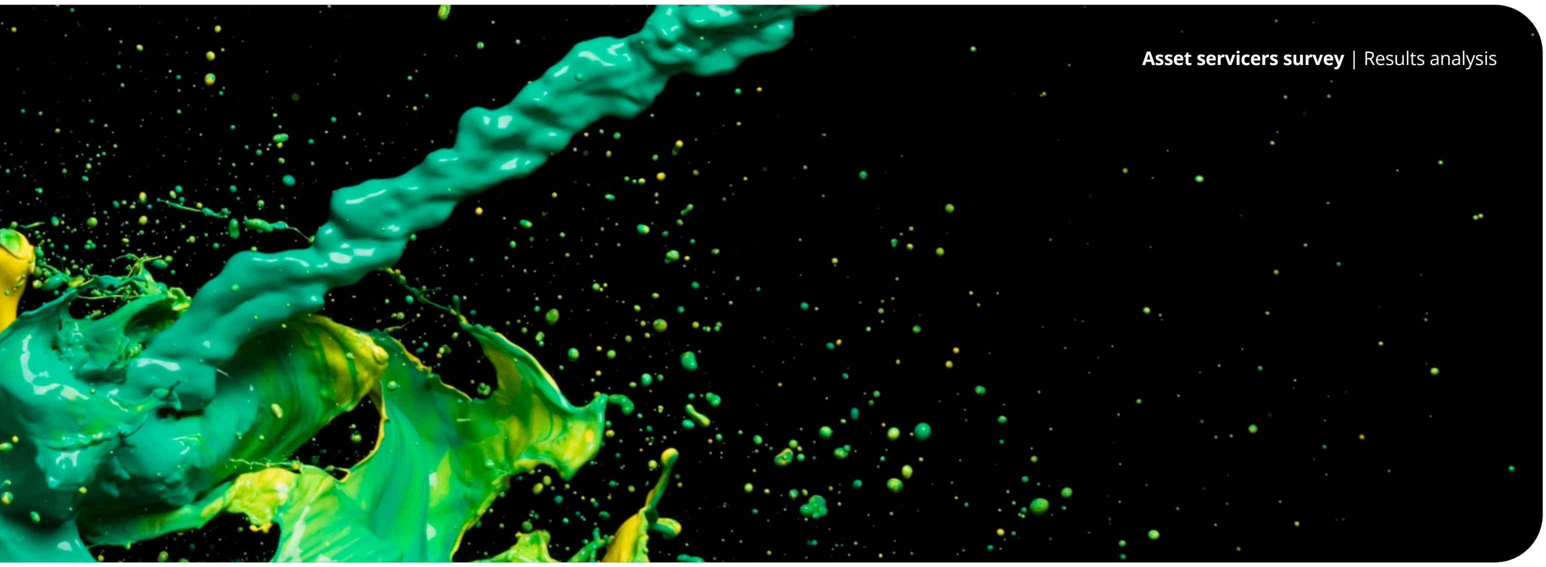
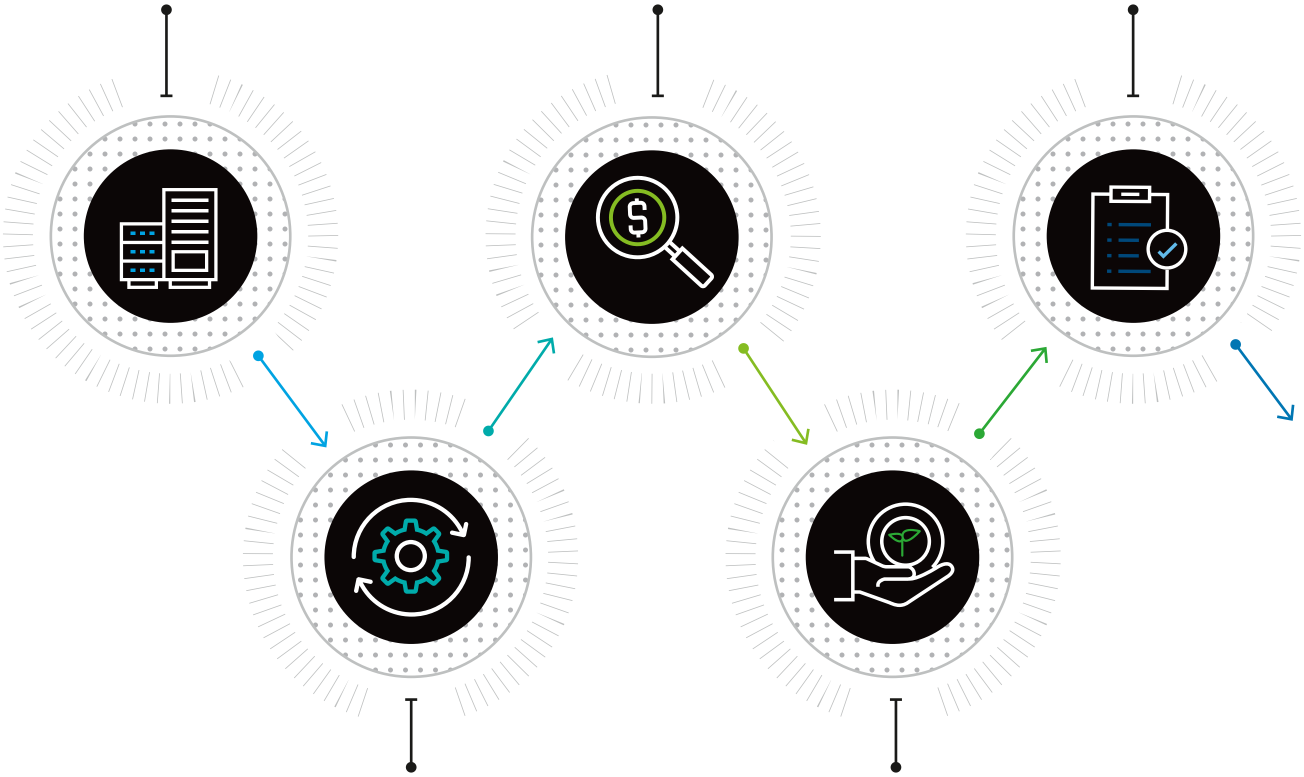


Five main results emerged from the survey

TECHNOLOGY BREAKTHROUGHS
Innovative data management?

ALTERNATIVE INVESTMENTS
Alternative opportunity?

COVID-19
Accelerator or threat?



OPERATING MODELS
Can asset servicers reinvent the operational wheel?

SUSTAINABILITY AND ESG
The challenging rising star?

Methodology and overview of respondents

- Methodology and scope
- Overview of respondents

METHODOLOGY AND OVERVIEW OF RESPONDENTS

Methodology and scope

Presentation

- Organized jointly by **Deloitte Ireland** and **Deloitte Luxembourg**
- The survey aims to:
  - Describe the **current market landscape**
  - **Identify market trends** and challenges that will shape the future state of the industry
  - Collect and share points of view from industry leaders
- **The results of the survey will be published and presented to several** industry associations and the press via a **white paper** and other formats
- **Recurring format**, alternating **asset servicer** and **asset manager** participants

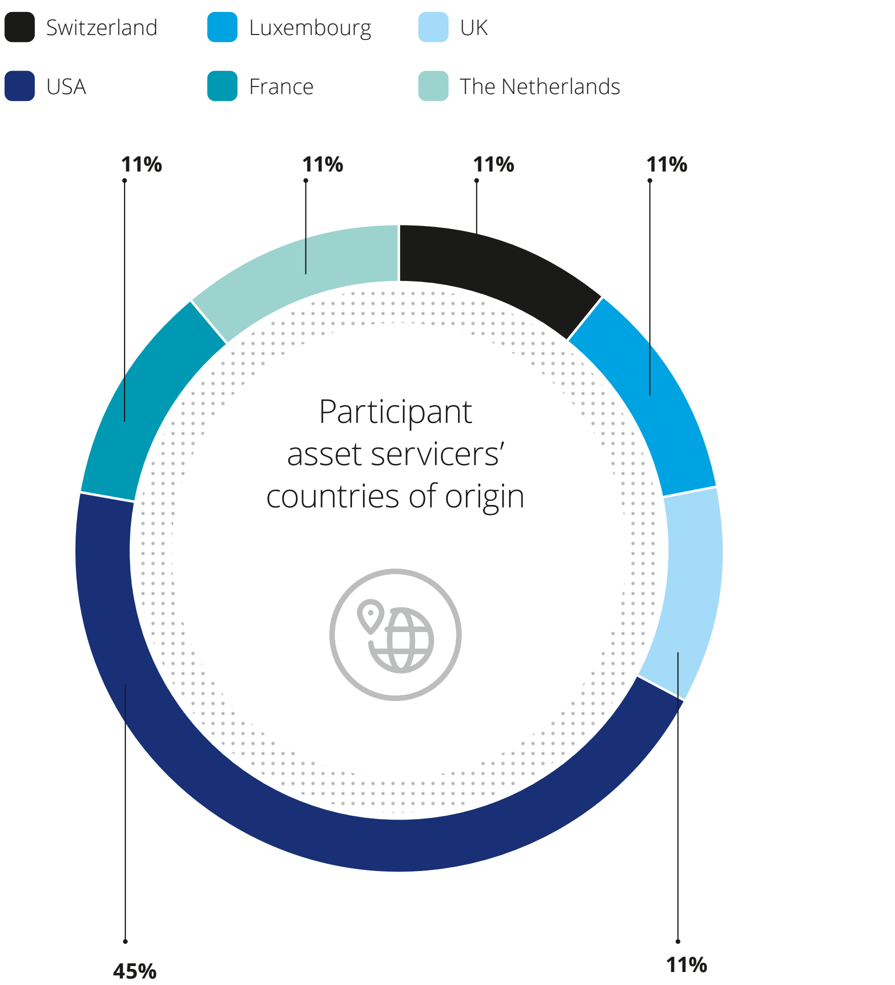
Survey structure

- General company information
- Clients' expectations
- Challenges and vision
- Business model
- Technology
- Innovation and projects

2020 Survey participants

10[1] asset servicers with €74 tn AuC (~45% global AuC)

As the asset servicing market is very concentrated, with a few global players leading the asset servicing landscape, the total number of participants is limited; however, they cover half of the worldwide assets under custody (AuC).

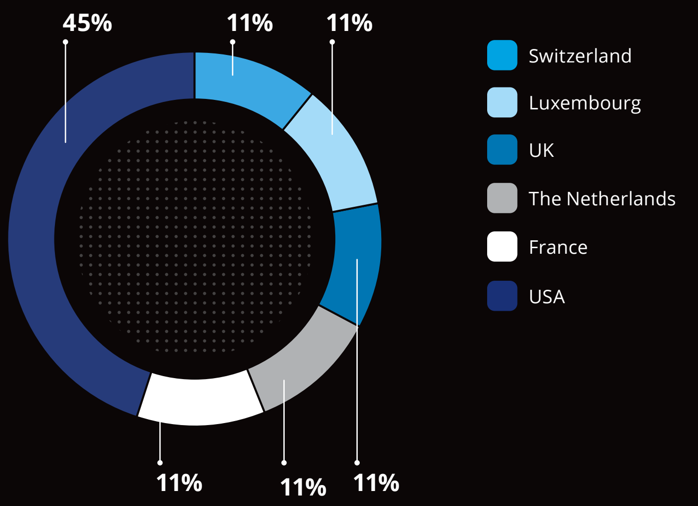


1 The list of respondents comprises, among others, two different entities of the same asset servicing group

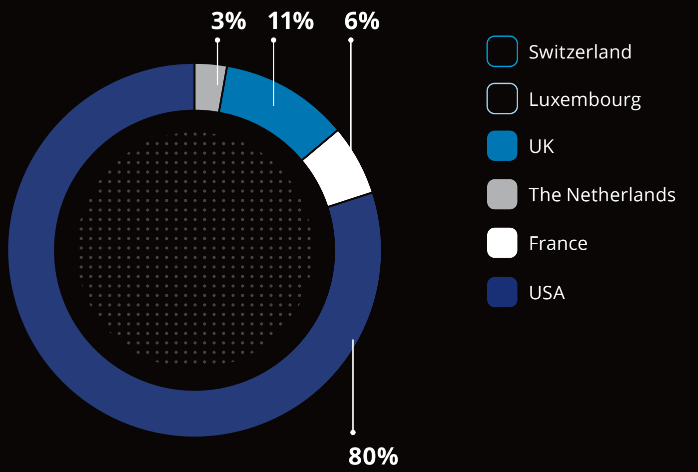
METHODOLOGY AND OVERVIEW OF RESPONDENTS

Overview of respondents

Split of asset servicers by country of origin



Split of assets under custody by country of origin



American custodians also enjoy dominance in the two largest European fund markets. Three of the four largest custodians operating in Luxembourg are US-based. All four of the largest custodians present in Ireland are from the US.

80%

of the overall value of **AuC** (m€) comes from asset servicers located in the **US**, which account for **44% in terms of number**

METHODOLOGY AND OVERVIEW OF RESPONDENTS

Activities performed

What activities do you perform today?

Fund accounting 90%

Transfer agency 90%

Ancillary 90%

Depositary/trustee 80%

Custody 60%

ManCo/AIFM 30%

Most asset servicers have today developed a one-stop-shop offering, covering fund administration, transfer agency, depositary and custody, and ancillary services. Specialization in one specific service area is rare.

In addition to the wide range of activities performed, the majority of the respondents operate on both traditional and alternative asset classes: from real estate (100%), equities and private equity (90%) to hedge funds (60%). The only exception is crypto assets, which are only managed by 10% of the respondents.

Size

What were your total AuA (Assets under Administration), AuC (Assets under Custody) and AuM (Assets under Managerment) in 2019?

Below €100 bn

€100 bn– €500 bn

€500 bn—€1 Trillion

Over €1 trillion

European headcount

How many employees do you employ in Europe?

Below 200 10%

200–500 20%

500–1,000 0%

Above 1,000 70%

Whereas 44% of the survey's participants are originally located in the US, 70% of them hire more than 1,000 employees in Europe. This shows the strategic relevance of the European market, as well as the influence of large global players on the industry.

Revenue

How have your revenues changed per annum over the past five years?

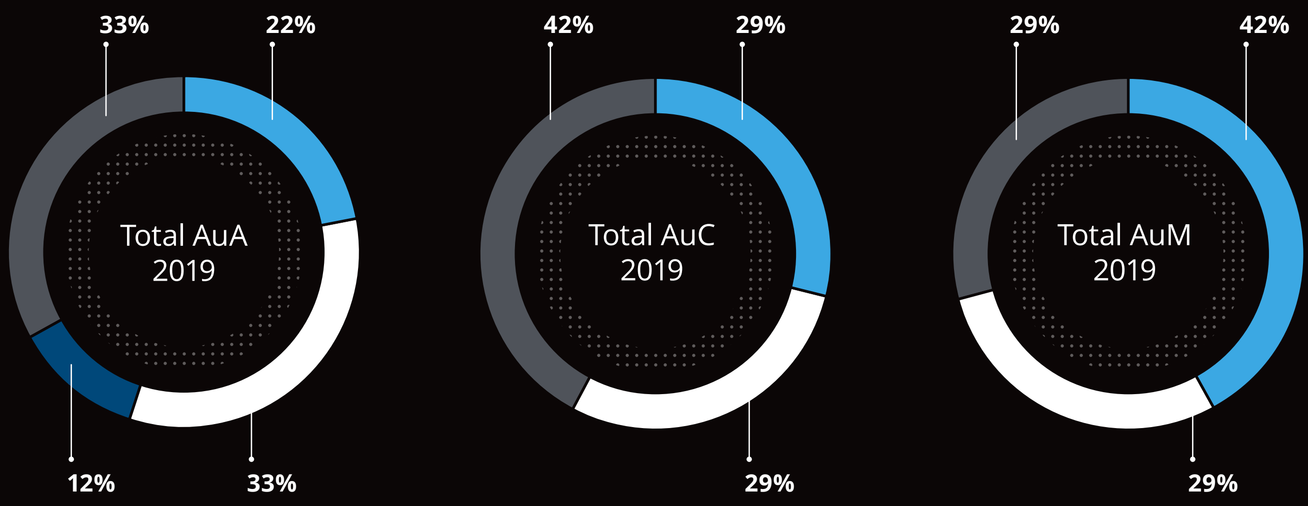
Below -10% 13%

-10—0% 0%

0—5% 25%

5—10% 38%

Above 10% 25%



Profit

How have your profits changed per annum over the past five years?

Below -10%	12%
-10—0%	0%
0—5%	22%
5—10%	22%
Above 10%	44%

Operating margin

What is your operating margin?

Below 20%	22%
20—30%	34%
30—40%	22%
Above 40%	22%

How has your operating margin evolved per annum in the last five years?

Below -10%	12%
-10—0%	0%
0—5%	22%
5—10%	22%
Above 10%	44%

The performance of asset servicer participants was quite heterogeneous over the past five years. While some players encountered significant revenues, operating margins and profit growth (over 40% of the respondents), others reported a drop in their revenues and profit by more than 10% (~10% of participants). Let us discover in the survey results what are the drivers for growth and the winning/losing strategies.

5 MAIN RESULTS FROM THE SURVEY

#1

Service provider technology breakthroughs

- **Data manager**—The new role of the asset servicer?
- **Innovation**—The key to renew with profitability?

DATA MANAGER—THE NEW ROLE OF THE ASSET SERVICER?

Asset servicers recognize the value of data and customized services for investors but have not yet realized their importance as criterion for asset managers when choosing a service provider.

The majority of asset servicers are aware of the growing importance of digitalized one-stop-shop services for investors ...

Asset servicers and asset managers agree on a shared vision of investors' expectations. They both have understood the importance of providing investors with a seamless customized experience and allowing access to real-time portfolio data.

However, even though asset managers have integrated digitalization into their strategic priorities, it appears that asset servicers are still reluctant to try on these new shoes, at least for now. Indeed, asset servicers underestimate the importance of improving their digital capabilities for their clients. Only 40% of asset servicers consider digital capabilities as a top selection criterion for their clients, whereas 62% of asset managers consider it as the main driver.

Investors top two expectations according to asset servicers

A **seamless customized investment experience**

according to
70% of asset servicers

Access to portfolio on digital supports in real-time

according to
80% of asset servicers

... but do not consider them as major selection criteria for asset managers (unlike asset managers themselves)

Asset manager's main criteria when choosing a service provider, according to asset servicers, versus asset managers' own assessment

Asset servicers' view

40%

of asset servicers consider **digital capabilities** to be among the top three important criteria asset managers consider when selecting asset servicers

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Asset managers' view

62%[1]

of asset managers consider digital capabilities to be the main driver for selecting specific providers per activity/product

1 Deloitte's 2019 Asset Management Survey

DATA MANAGER—THE NEW ROLE OF THE ASSET SERVICER?

Nevertheless, to fulfill their clients' expectations for more insights and real-time data, they are investing in data management systems.

According to Deloitte's 2019 survey among asset managers, the availability and reliability of data are widely perceived as the two main challenges that asset managers have to face (both mentioned by 67% of respondents). Indeed, asset management firms depend upon efficient data processing and aggregation in order to make investment decisions, as well as report effectively in an environment where there is a wealth of information to digest and reducing risk is paramount. As data becomes increasingly more complex, it has a substantial impact on how asset managers are able to operate and outperform in a competitive field. Data is used across the entire value chain and, therefore, an enhanced data management process is necessary to stay ahead of the curve.

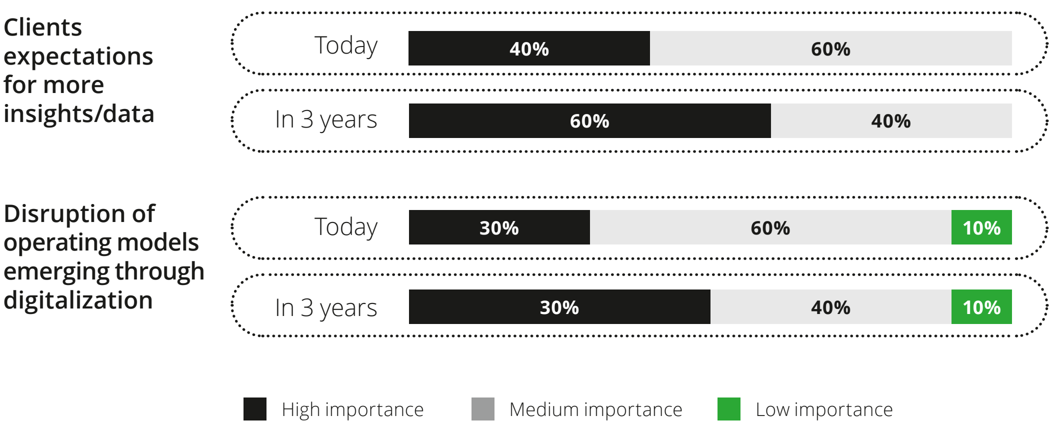
As a consequence, most asset managers consider outsourcing their data management. Asset servicers must be able to address this challenge. They are currently investing heavily in data management systems to be able to meet their clients' expectations.

Indeed, data management will become the third-largest investment center behind acquisitions and digitalization for asset servicers. Of course, the latter is strongly intertwined with data management.

State-of-the-art data management systems allow asset servicers to improve data quality and data velocity, produce reliable reporting and insights, provide more efficiency regarding non-value-added operations, and remove silos of information.

To face the growing challenges posed by digitalization and data ...

What are the asset servicing market's main challenges today?



... asset servicers have adapted their development plans and financial commitments

How do you plan to face the asset servicing market's current and upcoming challenges?

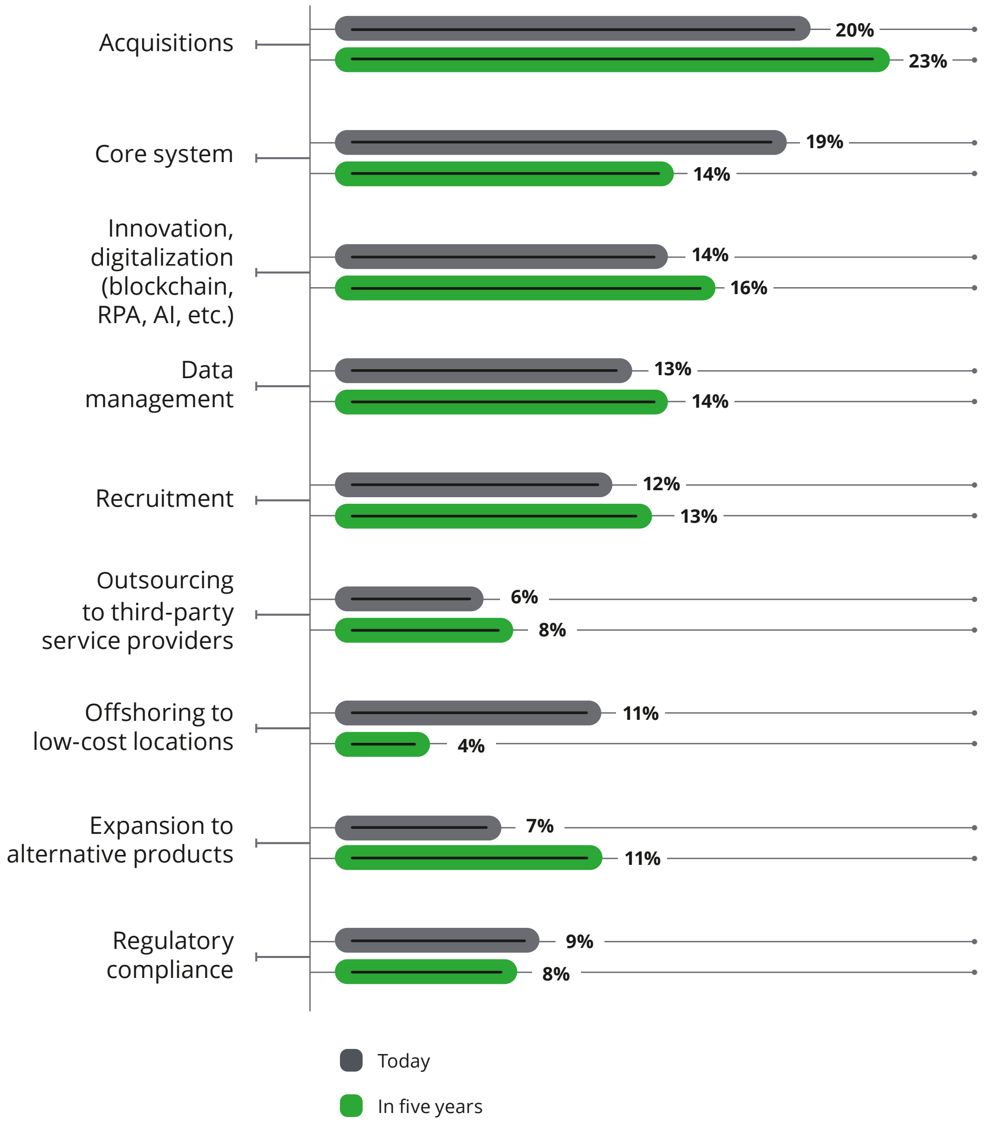
90%

of asset servicers plan to **develop data management systems to collect and analyze data**

80%

of asset servicers plan to **provide clients reporting with real-time data, on a self-service mode**

What percentage of your investment budget do you plan to allocate to these activities today and in five years? (average asset servicers' investment in %)



DATA MANAGER—THE NEW ROLE OF THE ASSET SERVICER?

This trend contributes to shaping a new role of asset servicers in relation to data management.

The future of asset servicers' role entails high integration of data and digital solutions, granting a significant competitive advantage to asset servicers prepared to act

Asset services will propose more end-to-end digital solutions, either through outsourcing services or as self-service solutions, giving accessibility and autonomy to asset managers on their data and processes

100%

of asset servicers agree with this vision of asset servicing in 5 to 10 years, after innovation will have been further embedded in the ecosystem

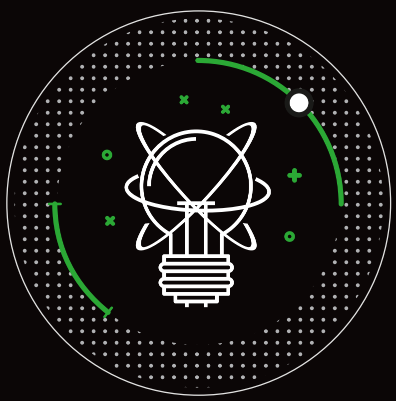
Asset servicers will become the data aggregator of the industry

80%

of asset servicers agree with this vision of asset servicing in 5 to 10 years, after innovation will have been further embedded in the ecosystem

Specifically, transfer agents are playing a key role in this regard. As they are in contact both with asset managers and investors, transfer agents are expected to provide regular statistics about investors' attributes and behaviors. Their importance is set to grow, as asset managers are increasingly considering client's expectations in their fund strategies definition.

INNOVATION—THE KEY TO RENEW WITH PROFITABILITY?



Cost pressure is one of the major challenges for asset servicers, pushing them to innovate to create added-value services and thus increase fees.

Fee pressure in the asset servicing industry is not new. In 2019, compared to 2018, fees in percentage of AuC dropped by 17.9%[1] after several years of stagnation, translating into more competition in the industry, and regulatory and compliance challenges. The greatest impact was felt in cash management and in servicing fees. This contraction reduced asset servicers' operating margin.

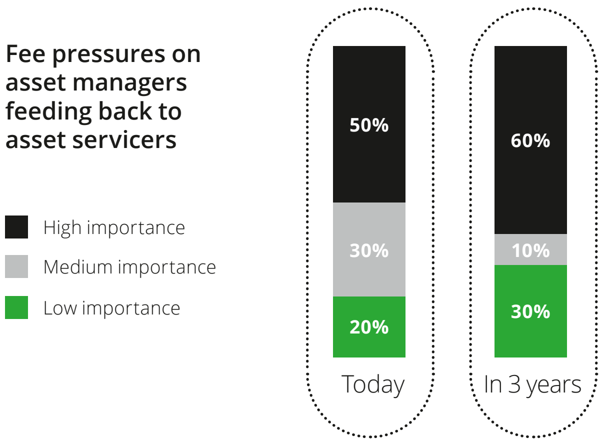
Fee pressure is expected to continue, to increase, in the upcoming future.

In addition, service providers' revenues are also heavily impacted by the evolution of assets under management (AuM) in the industry at large. The first quarter of 2020 saw an AuM drop exceeding 10%[2], and even though the recovery has been rapid, uncertainty remains strong. The current turmoil should incentivize asset servicers to push for further operational efficiency.

Asset servicers are strongly pressured on their fees, with investors not ready to support higher fees

What are the asset servicing market's main challenges today?

Fee pressures on asset managers feeding back to asset servicers



Investors' main expectations according to asset servicers

0% of asset servicers consider **paying high fees to get higher return or non-financial impact** to be among the top two of investors' expectations today

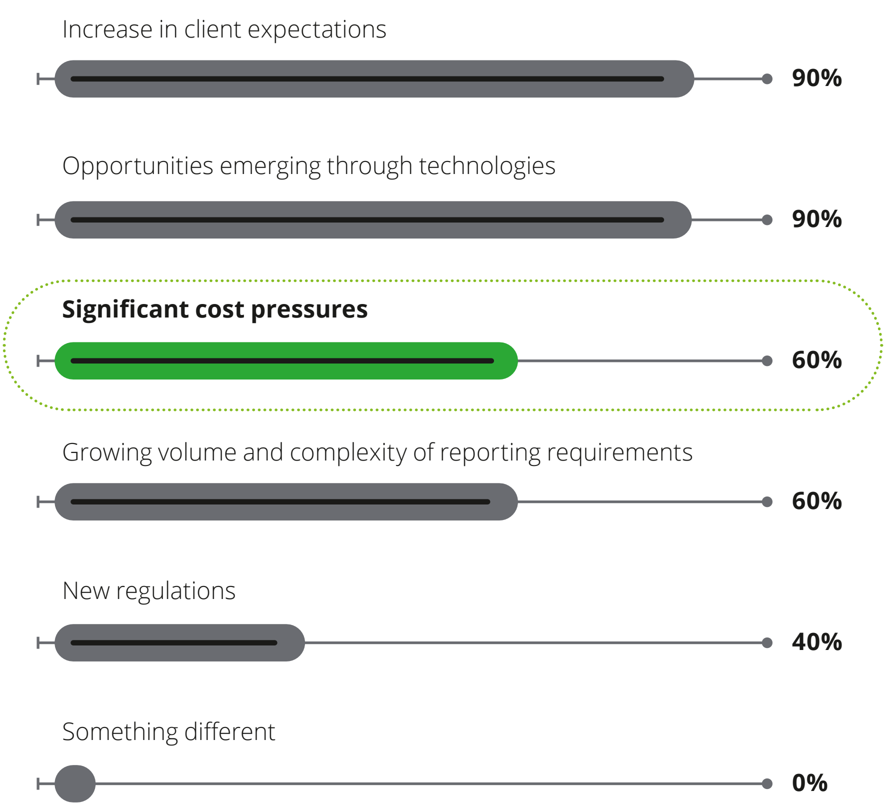
1 Custodians financial reports (2015-2019), Deloitte analysis

2 EFAMA Internationally Quarterly Release 2020, Deloitte analysis

INNOVATION—THE KEY TO RENEW WITH PROFITABILITY?

Thus, they are turning to innovations to relieve the pressure

What do you view in the market as the key drivers of innovation?



60% of asset servicers consider **significant cost pressure** to be a key driver for innovation in the market

There is a strong correlation between investments in technology and operational efficiency. "Winning" asset servicers (asset servicers whose operating margin is above the average market operating margin) spend on average 8.9% of their revenue on information technology infrastructure and kept a positive operating margin growth between 2015 and 2019 (0.8% compound annual growth rate, or CAGR). On the contrary, "underperforming" firms spent only 6.3% of their revenue on information technology infrastructure and saw their operating margins crumble at a rate of -14% per year between 2015 and 2019[1].

Overall, winning asset servicers managed to increase their revenues faster than their operating costs. Innovation and technology do therefore emerge as a key differentiator allowing some asset servicers to outperform. At the same time, asset servicers are also facing rising levels of expectations from their clients in terms of data quality, reporting, transparency and flexibility.

1 Custodians financial reports (2015–2019), Deloitte analysis

INNOVATION—THE KEY TO RENEW WITH PROFITABILITY?

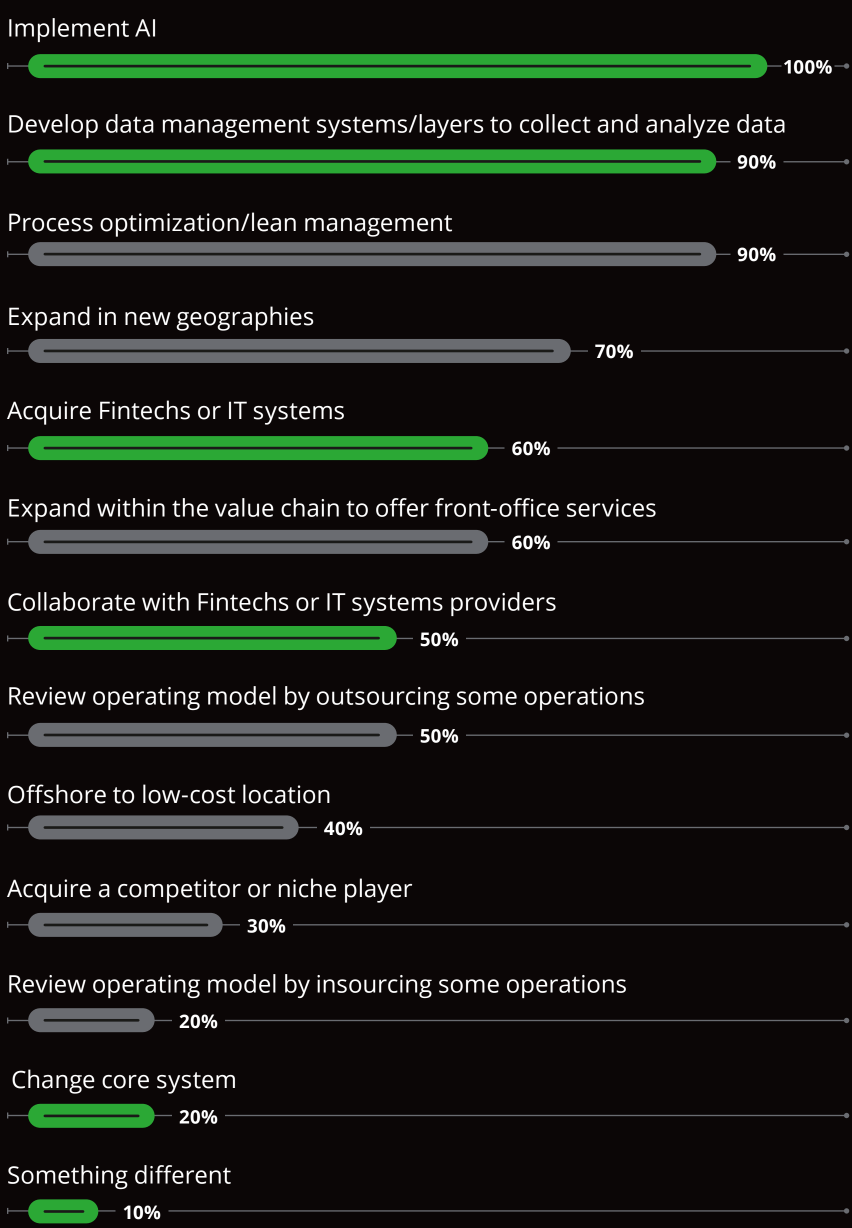
As a consequence, asset servicers are launching a multitude of tech-driven projects, mainly for transfer agent and fund accounting functions

Most of the solutions to face current and upcoming challenges are innovation- and technology-related ...

Interestingly, respondents' preferred answer to lasting cost pressure from asset managers and investors is the implementation of artificial intelligence (AI), analysis of data via newly developed systems, as well as the optimization of existing processes. Of the survey's respondents, 90–100% hold this view. Offshoring to low-cost locations or outsourcing operations is only considered as an effective measure to keep costs in check by 40–50% of respondents.

Nevertheless, not all servicing activities are considered as equally sensitive in this context. Transfer agency is seen as the service with the highest digitalization potential (by 40% of respondents), while few believe the same for custody (10%). None believe that compliance or management company services will benefit greatly from digitalization.

How do you plan to face current challenges/areas for growth? (multiple choice)

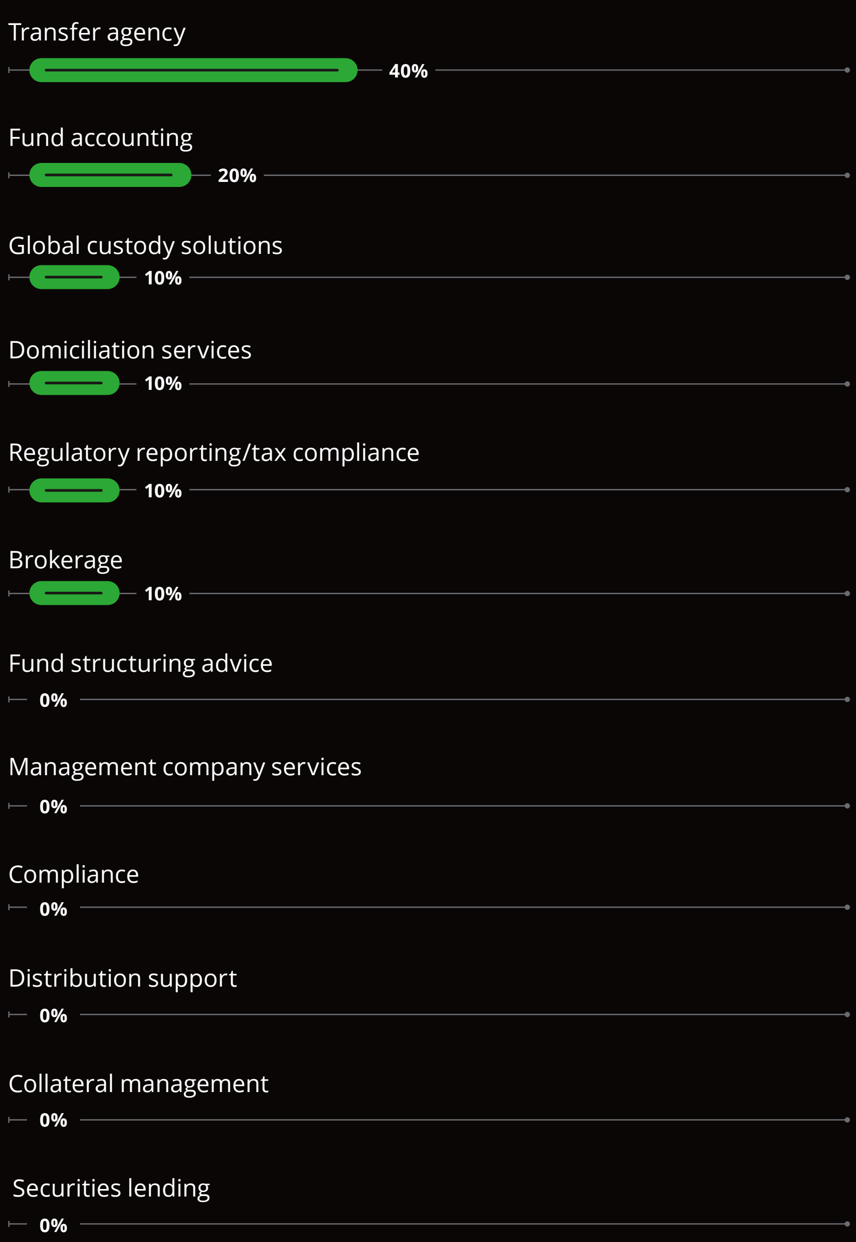


- Innovation- and technology-related solutions
- Solutions not related to technology and innovation

INNOVATION—THE KEY TO RENEW WITH PROFITABILITY?

... with transfer agency and fund accounting considered to have the highest digitalization potential

What element along the value chain do you believe has the highest digitalization potential? (single choice)



Different innovations are chosen depending on the service performed along the value chain.

Transfer agency: the digitalization of the onboarding process with video and e-signature, but also the anti-money laundering/know your customer process through automated name screening is at the core of transfer agents' agenda for the coming years, whereas so far, their focus has been on the digitalization of documents.

Fund administration: fund administrators' innovation projects so far have mostly focused on digitalization and automation, although upcoming projects will rather focus on the usage of AI.

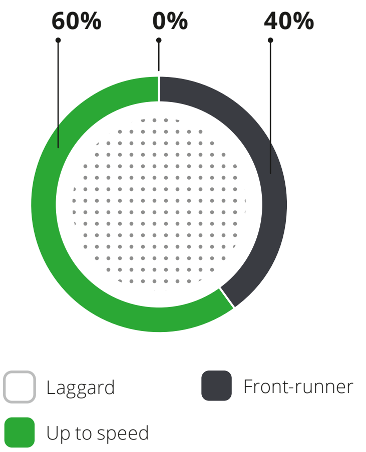
Custody: the digitalization of the custody function is the most advanced compared to transfer agency and fund administration. The account opening process is the activity that has evolved the most through technology, closely followed by proxy-voting, corporate actions and messaging processes.

Transfer agency, fund administration and custody all feature tech-driven projects in the reporting space, with dashboards and interactive reporting. Besides this, over the next five years, all three parties recognize the development of ESG data analysis tools as the main area for innovation.

That is why asset servicers have organized their capabilities around dedicated teams and significant investments ...

Most asset servicers view themselves as above average in terms of innovation ...

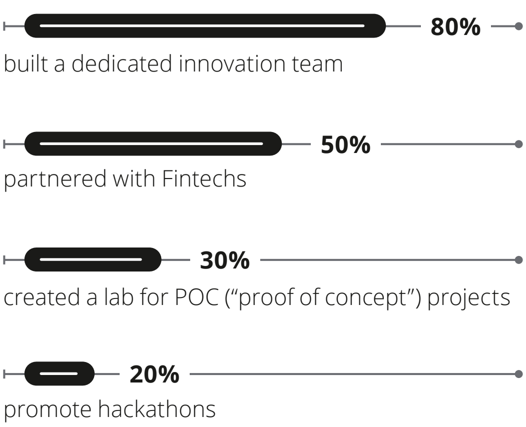
Do you see yourself as a front-runner, up to speed or laggard in digital innovation?



It is worth reminding that asset managers, while generally satisfied by their asset servicers, are significantly less so regarding servicers' digital capabilities. It seems that servicers have a rosier image of their tech capability than their clients.

... relying mostly on dedicated teams ...

How do you promote and govern innovation within your firm?

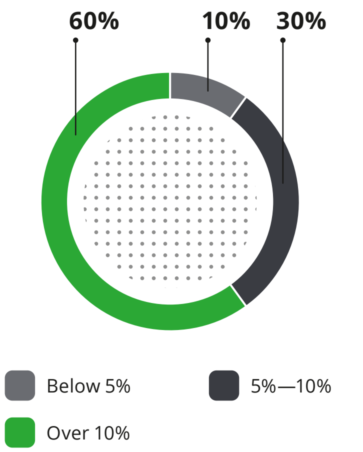


Fintechs are seen more as partners than competitors in the industry. Few servicers (11%) see new competitors disrupting the value chain as an important challenge. The outlook remains stable, as the challenge is not perceived as more urgent in three years' time compared to today. Often, asset servicers themselves will invest in up-coming fintechs at an early stage, to secure their services.

The fact that 80% of respondents declare having a dedicated innovation team shows the need for specialized knowhow, and the pressing need to break the status quo.

... and a significant share of their budget

What is the proportion of your spending on innovation in percentage of your revenues?



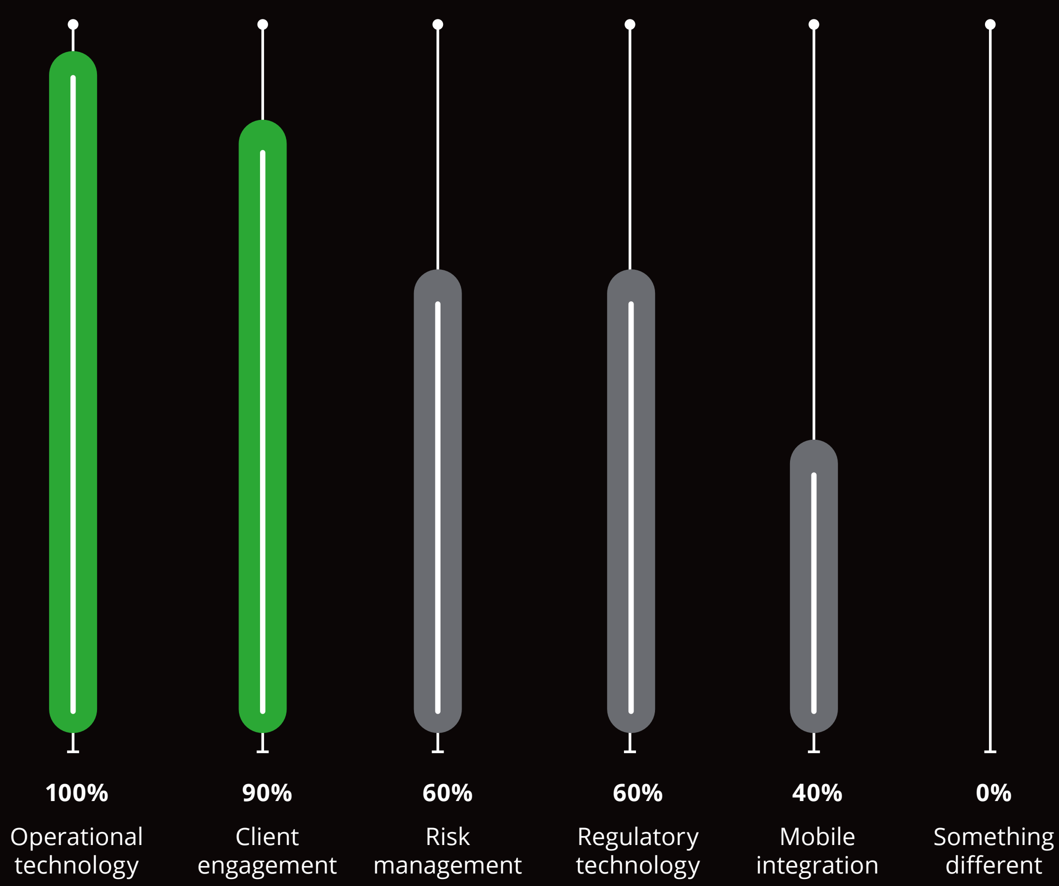
INNOVATION—THE KEY TO RENEW WITH PROFITABILITY?

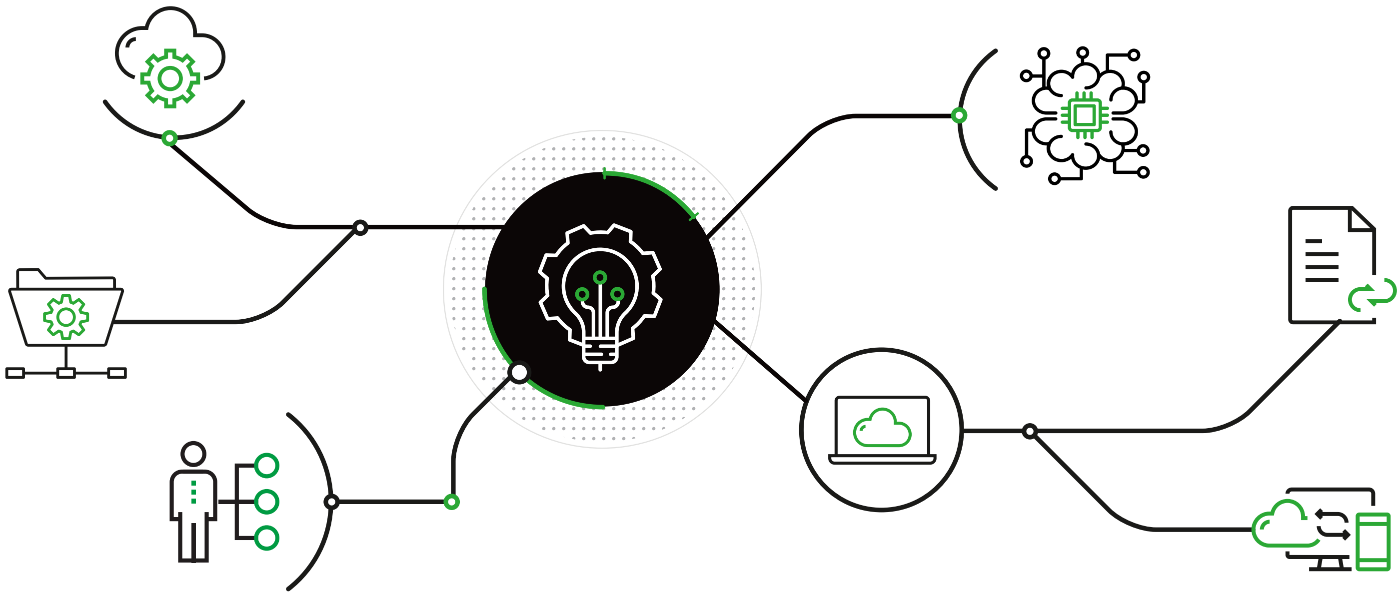
… to conduct diversified innovation projects focusing on operational technology and client engagement.

As we look to the future of investment management, successful asset servicers will find ways to support the efforts of their clients while also reducing their own costs. This means that asset servicers shall reconsider their operating models to find ways to be more agile. By leveraging the latest innovative technology and data management capabilities, asset servicers shall continue to create scalable solutions for asset managers in terms of product/asset classes and range of services, while significantly reducing their own costs and enhancing their operational efficiencies.

Most innovation projects currently carried out focus on operational technology and client engagement …

What type of innovation projects do you currently conduct?





... and mainly use robotics and cognitive automation

What tools are you using to carry out innovative initiatives? What are the main challenges that you face when launching projects involving technology?

80%

Robotics and cognitive automation
Main challenge when launching such projects is integration of the technologies with existing processes/workflows

60%

Digital communication channels

60%

Artificial intelligence
Main challenge when launching such projects is integration of the technologies with existing processes/workflows

60%

Data lake/ warehouse

60%

Cloud computing

50%

Blockchain
All asset servicers consider that the industry focus on blockchain has either increased or remained stable
Main challenge when launching such projects is the buy-in of other industry participants

5 MAIN RESULTS FROM THE SURVEY

#2

Operating models

Operating models—Can asset servicers reinvent the operational wheel?

OPERATING MODELS—CAN ASSET SERVICERS REINVENT THE OPERATIONAL WHEEL?

Expertise and flexibility in the offering are key differentiators amongst asset servicers, while expansion of the value chain is a prerequisite to capture growth.

Asset servicers are consolidating their current capabilities ...

What are, according to you, the most important criteria for asset managers when selecting an asset servicer?

70%

of asset servicers consider **expertise** among the top three most important criteria that asset managers consider when choosing an asset servicer

However, a one-stop-shop solution is not viewed by asset managers as a criterion of high importance when selecting a service provider

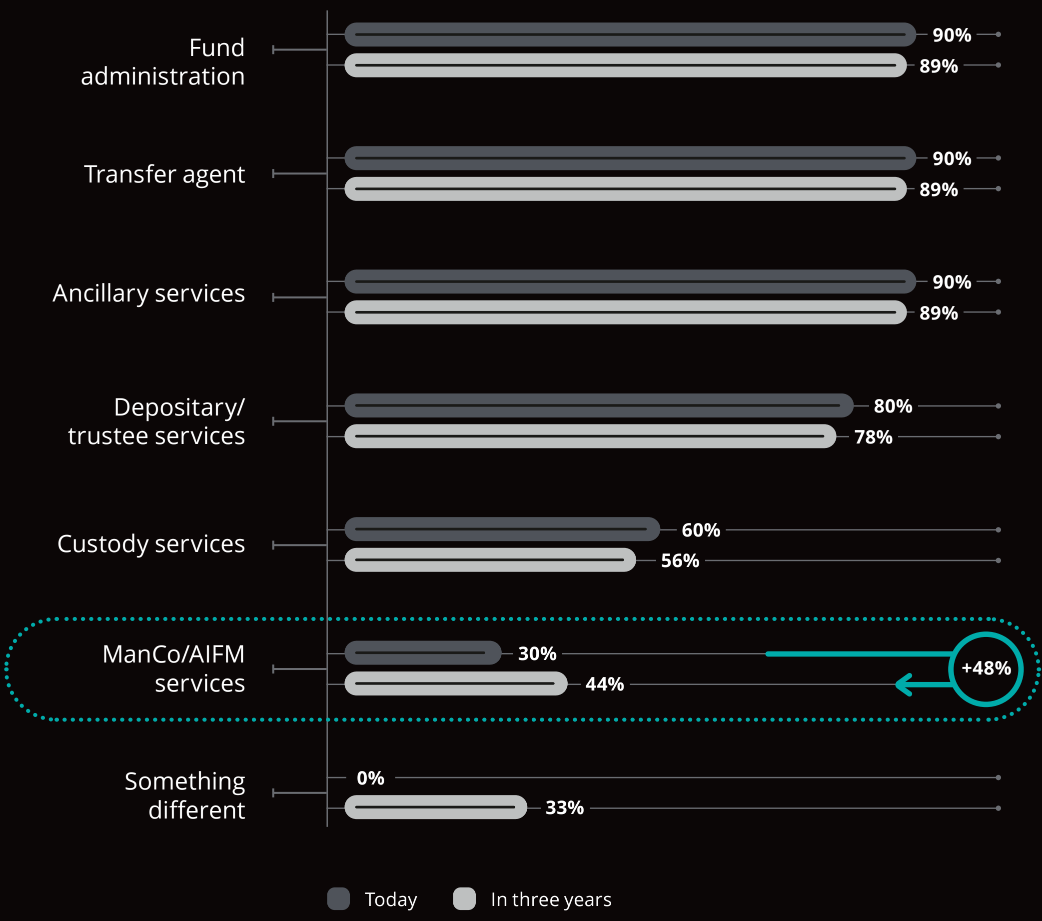
While outsourcing is not a new phenomenon, we see more asset managers turning their attention to areas that had not previously been outsourced, such as the front office. Asset managers recognize that functions such as trading can be done more efficiently by specialized providers who have expertise and reach. Outsourced trading has moved from being viewed as a defensive measure to cut costs, to a more proactive decision to improve margins, streamline operations and enhance governance and control processes. It has progressed from something once considered niche, to something resembling a more normal or optimal state: an efficient, scalable, "smart" way to access best-in-class execution capabilities while keeping focused on investment strategy and distribution.

Moreover, outsourcing is a way for many firms to achieve scale and gain access to capabilities usually only available to the largest players.

Therefore, asset servicers are now able to intervene along the entire value chain, allowing modular implementation of value-added services like trading, collateral management, trade processing and risk management solutions, all the way up to asset management and portfolio management solutions. Many servicers opt for a one-stop-shop solution.

... while developing front- and middle-office functionalities to capture new clients and increase revenues

What activities do you perform today? Which one do you plan to perform in the next three years?



How do you plan to face current challenges/areas for growth?

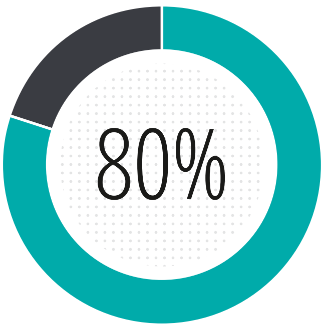
60%

of asset servicers consider **expanding within the value chain to offer front-office services** to be a solution to face current and upcoming challenges of the asset servicing market

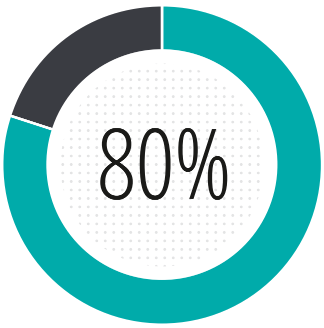
OPERATING MODELS—CAN ASSET SERVICERS REINVENT THE OPERATIONAL WHEEL?

Indeed, technology in front, middle and back office services is likely to break down the barriers in the near future.

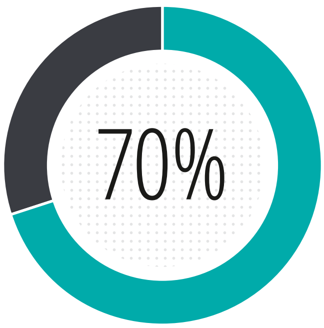
The lines between front, middle and back office activities will fade thanks to technology which will eliminate lower value functions



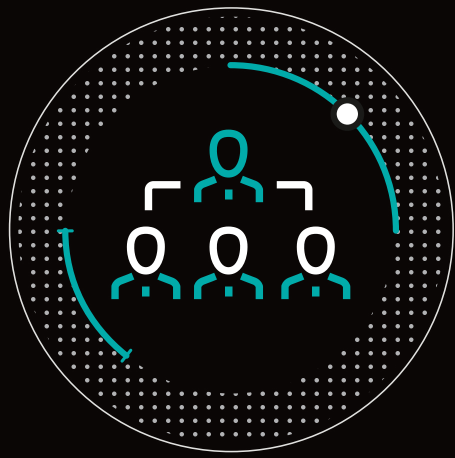
Asset servicing will support an increasing set of capabilities to be even closer to the investment decision and will see a continued extension of the traditional outsourced activities

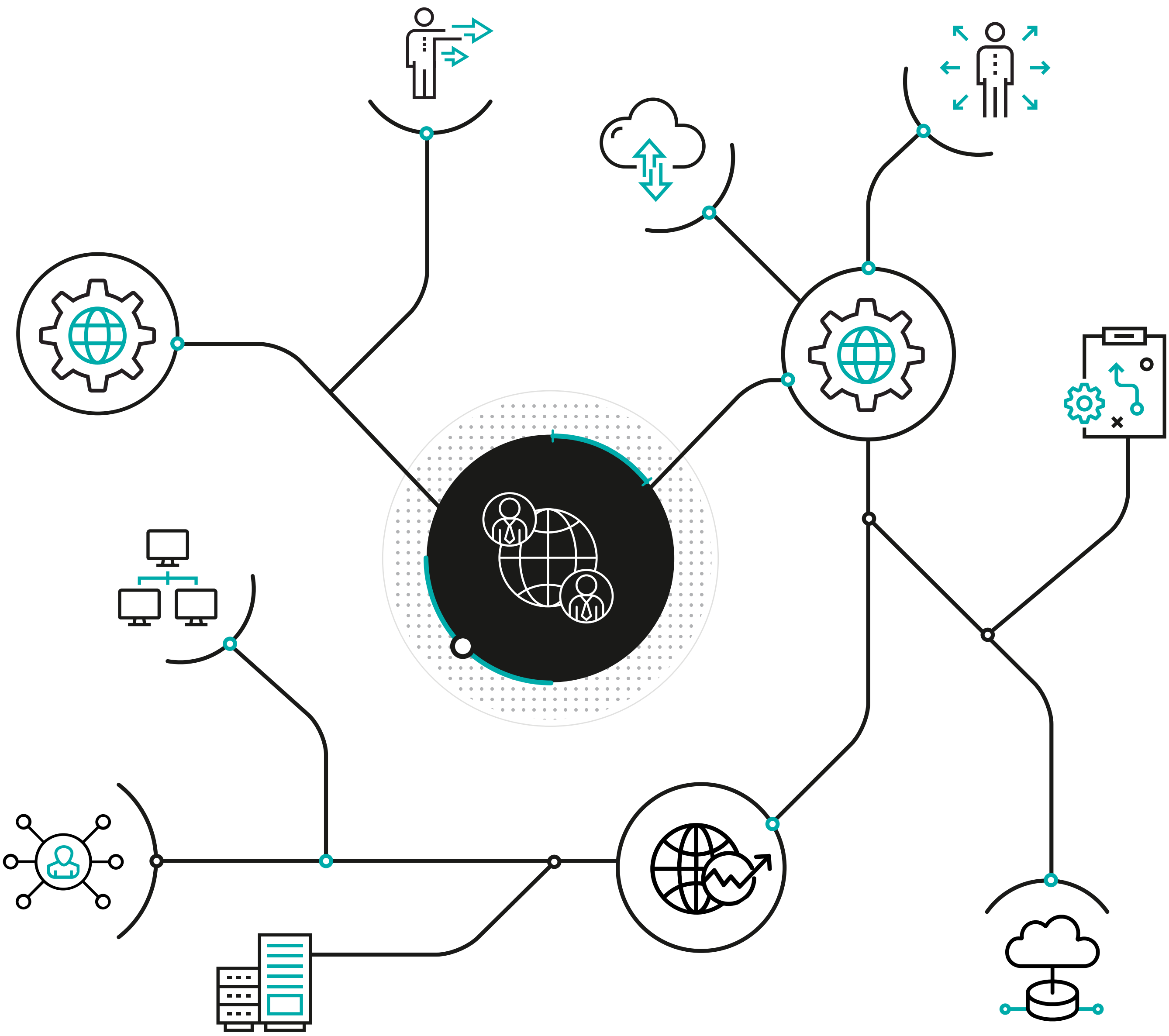


Asset servicers will collaborate with front office providers to create the industry's first global front-to-back client servicing platform offered by a single provider



of asset servicers agree with this vision of asset servicing in 5 to 10 years, after innovation will have been further embedded in the ecosystem





OPERATING MODELS—CAN ASSET SERVICERS REINVENT THE OPERATIONAL WHEEL?

It is important to distinguish outsourcing (delegating an activity to a third party provider) from offshoring (performing certain activities in lower-cost geographies, at times by the same entity).

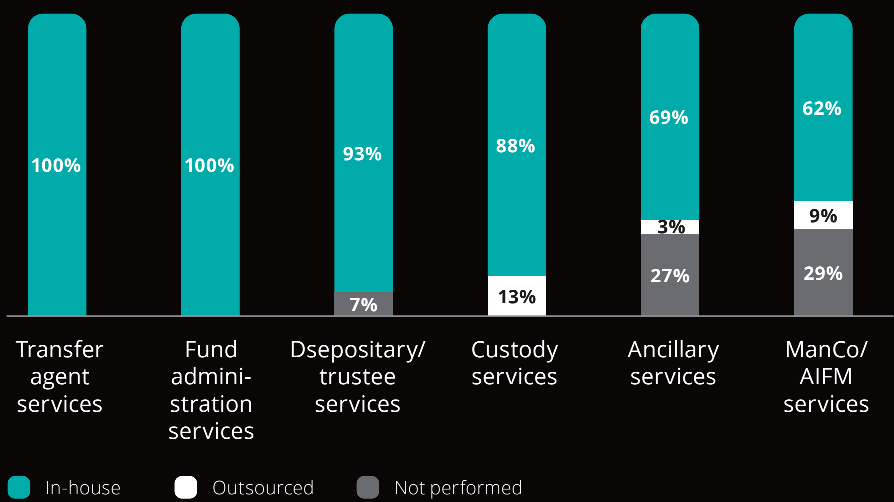
The level of outsourcing varies greatly depending on the asset servicer's function. For instance, depository/trustee services, fund administration and transfer agency do not have any outsourcing arrangements. Custodians outsource 13% of their services, essentially back-office functions, while core tasks remain in-house. Nine percent of management companies' activities are outsourced to third parties, in particular valuation, proxy voting or fund set-up and domiciliation.

Last but not least, around one-third of asset servicers have a limited offer when it comes to ancillary services such as securities lending, brokerage and credit facilities, amongst others whereas the offering could be extended via integration of external solutions, such as cloud-based solutions, and improved by AI. Shifting the attention to offshoring—as of today, not all services offered by transfer agents, fund administrators and custodians are performed locally. Indeed, asset servicers maintain in their headquarters given tasks at the core of their "Center of Excellence" (for instance, pure custody tasks such as settlement). Moreover, client-facing activities are still performed locally whereas corporate actions are often delegated to an offshore center. Other offshoring candidates include regulatory activities.

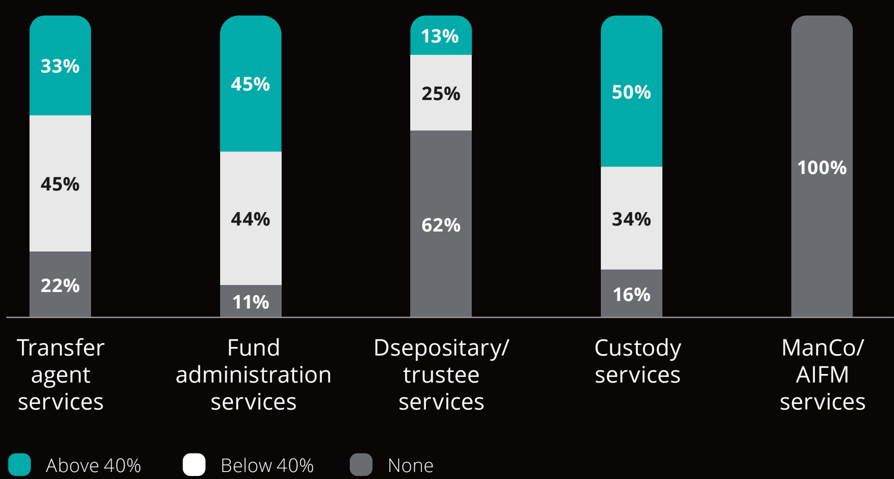
In the specific case of transfer agency, offshoring of operational tasks is common, but with great care spent on data secrecy of investors.

Traditional asset servicing activities mostly remain in-house but can be offshored for cost efficiency

For each service, what activities do you perform today?



For each service, can you indicate your proportion of offshoring?



While most of their activities are currently performed in-house, asset servicers are utilizing offshoring in greater proportion.

The asset servicing business model is likely to evolve towards stronger optimization and externalization

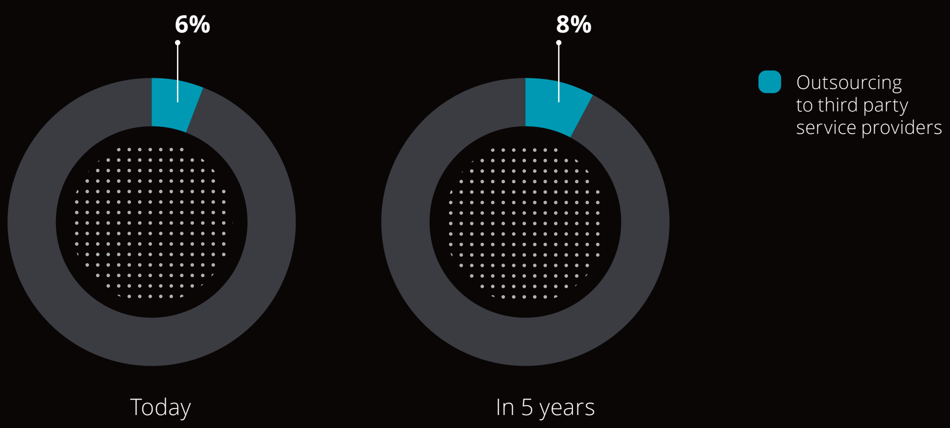
How do you plan to face current or upcoming challenges/areas for growth?

Process optimization/ lean management
(considered as a way to face current and upcoming challenges by **90%** of asset servicers)

Review operating model by outsourcing some operations
(considered as a way to face current and upcoming challenges by **50%** of asset servicers)

Offshore to low-cost location
(considered as a way to face current and upcoming challenges by **40%** of asset servicers)

What percentage of your investment budget do you plan to allocate to outsourcing to third party service providers today and in five years?



5 MAIN RESULTS FROM THE SURVEY

#3 Alternative investments

Alternative investments—Alternative opportunity?

ALTERNATIVE INVESTMENTS—ALTERNATIVE OPPORTUNITY?

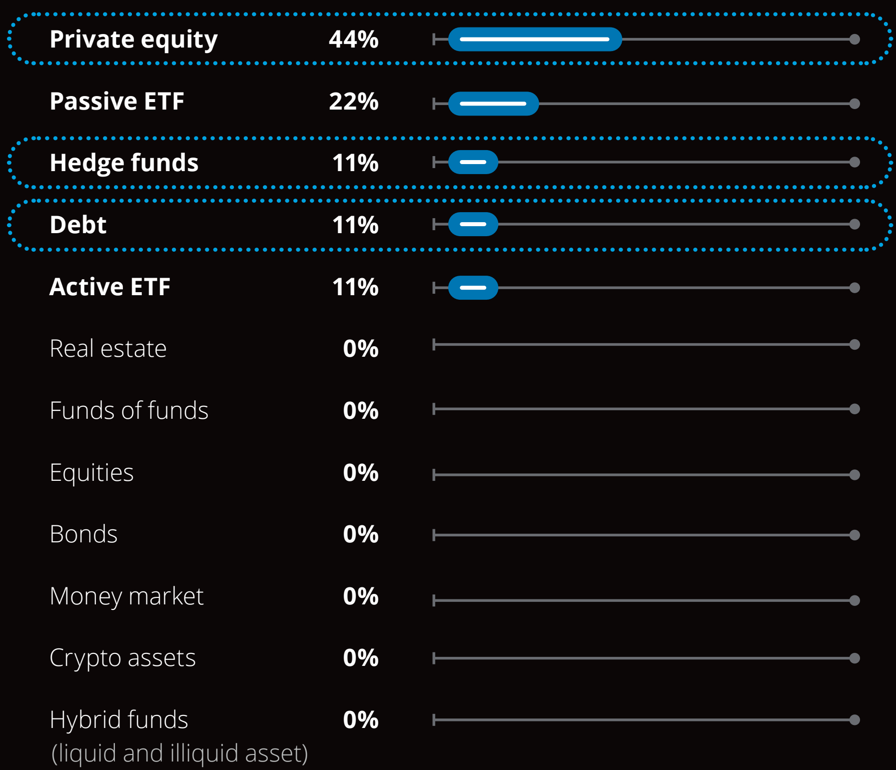
Alternative asset classes are to be considered as an opportunity for growth …

The shift toward alternatives is structural. From 2015 to 2019, at a global level, AuM in alternative investment funds grew by 11.3% per year, while growth in undertakings for collective investments in transferable securities (UCITS) trailed at +1.1% per year[1]. This structural trend is expected to continue in the foreseeable future, given the higher average yield compared to vanilla vehicles. Let us pick private equity as an example, as nearly half of our respondents see private equity as the prime growth opportunity. Average returns have been consistently higher than the Standard & Poor's 500 benchmark, and remarkably, standard deviation has been lower too. Moreover, alternative products enable asset managers to increase their operating margin as investors generally accept paying a performance fee on top of a generally higher management fee. One technical notable item due to the COVID-19 situation: 90%[2] of private equity investors and 70%[2] of private equity fund managers expect funds' lifetime to go beyond the classic 10-year model, hence extending the duration of services.

In terms of geographical distribution, both the Asia-Pacific and the European Union will experience profound developments in the alternatives sphere.

Alternative asset classes are seen as the best growth opportunities …

From which asset class do you see the best growth opportunities? (single choice)



1 EFAMA Internationally Quarterly Release 2020, Deloitte analysis
2 Invest Europe – Pan European PE report – November 2020

... however challenging for asset servicers

100%

of asset servicers see the **best growth opportunities in alternative investments**

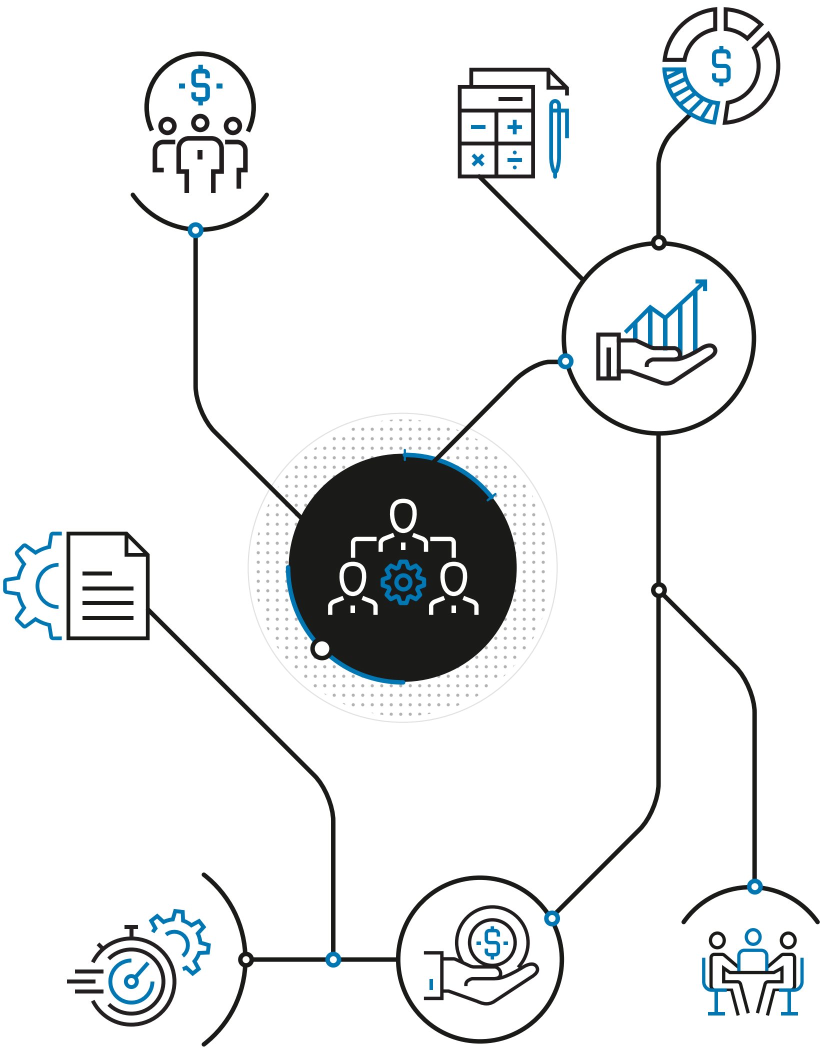
80%

of asset servicers view **integration of alternative products in their offering** as a **highly or moderately important challenge** for the asset servicing market (70% in three years)

Nontraditional investments are heterogeneous. This would require a single asset manager to multiply its internal knowledge and capabilities in their middle/back office teams in a way that would be economically inefficient. Outsourcing to asset servicers is sometimes the best solution, as these players can specialize and develop economies of scale, but produces new challenges for servicers themselves.

ALTERNATIVE INVESTMENTS—ALTERNATIVE OPPORTUNITY?

… this is being reflected by asset servicers creating dedicated teams and capabilities to service these asset classes.

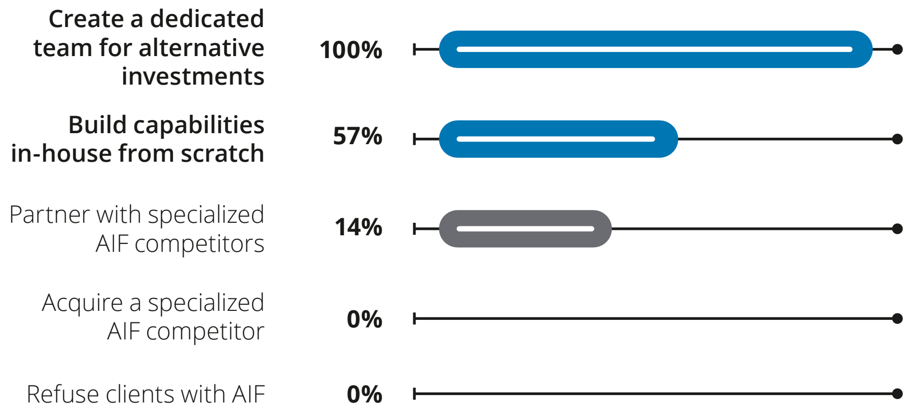


Asset servicers are creating dedicated internal capabilities and teams to develop their alternative offerings. This is now considered as a must do; failing to do so would prevent asset servicers from potential new mandates, especially as trust and corporate servicers are becoming a more important threat to traditional asset servicers compared to three years ago (two trust and corporate servicers are now in the Luxembourg top 15[1] in terms of "alternative asset under custody" whereas none were a few years ago).

1 As per 2019 Luxembourg Monterey report (the two trust and corporate servicers being Alter Domus and Citco)

Asset servicers will mostly use in-house capabilities to develop their alternative offering ...

How do you intend to react to the rise of alternative products?
(single choice)



... but also plan to partner with fintechs

Clients will ask for more personalized services with more asset classes to cover (i.e., crypto assets, security tokens), pushing asset servicers to partner with fintech providers

80% of asset servicers agree with this vision of asset servicing in 5 to 10 years, after innovation will have been further embedded in the ecosystem

Despite sharing the common goal of creating a dedicated team to address the alternative asset fund managers' market, asset servicers are adopting diverse strategies:

- Development of large IT projects to allow the flexibility required for tailor-made services; and
- HR reshuffling and team specialization to foster in-house capabilities.

5 MAIN RESULTS FROM THE SURVEY

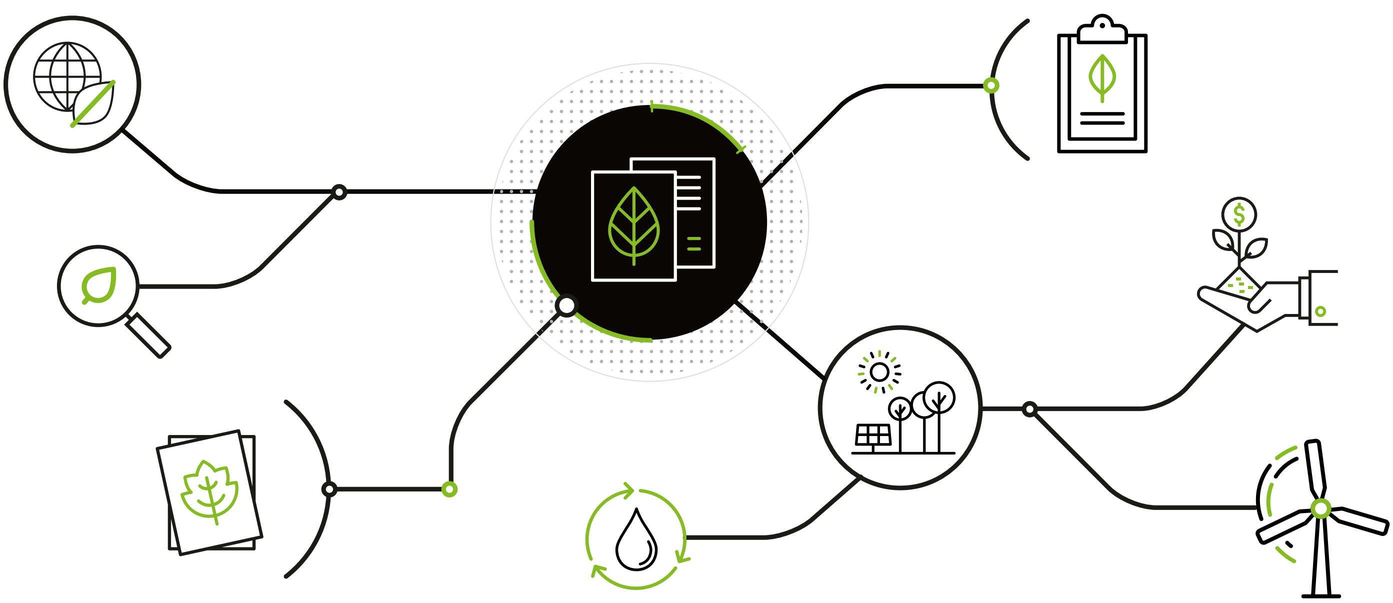
#4

Sustainability and ESG

Sustainability and ESG—The challenging rising star?

SUSTAINABILITY AND ESG—THE CHALLENGING RISING STAR?

Investors' growing expectations for sustainable funds are introducing an upcoming momentum in the asset servicers' landscape ...



We are entering a new era with strong momentum on sustainable finance. As sustainability is playing a central part in the investment management ecosystem, asset servicers will have to embed it in their strategic agenda. Until last year, the integration of sustainability in asset servicers' strategy was still seen as a choice, with only a few "believers" engaged in this direction. However, with the European Union's action plan on sustainable finance and the application of the Sustainable Finance Disclosure Regulation in March 2021, it is now a mandatory requirement. The European Commission accelerated its plan to achieve the Paris Agreement's goals and thus decided to increase transparency for investors on non-financial criteria. The final goal is to limit greenwashing and foster harmonized practices on the market.

Even though asset servicers are aware of investors' increasing demand for sustainable products as well as the growing number of sustainable funds offered by asset managers, only 20% of respondents rank the integration of sustainable investments as highly important right now, and 40% in three years.

Subsequent to investors' growing demand for sustainable funds ...

78%

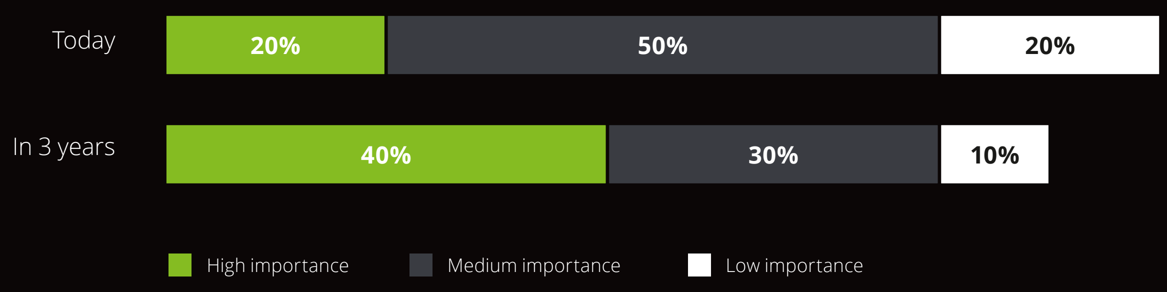
of asset servicers consider that the proportion of sustainable assets in the funds they manage is likely to increase in the next three years. Today, they all declare to manage funds with less than 30% of sustainable assets

80%

of asset servicers consider investing in sustainable funds to be among one of investors' top expectations today

... asset servicers are increasingly aware that the integration of Socially Responsible Investment (SRI) funds will be challenging

Integration of sustainable investments—What are asset servicers' main challenges today?
(rank from most to less important)



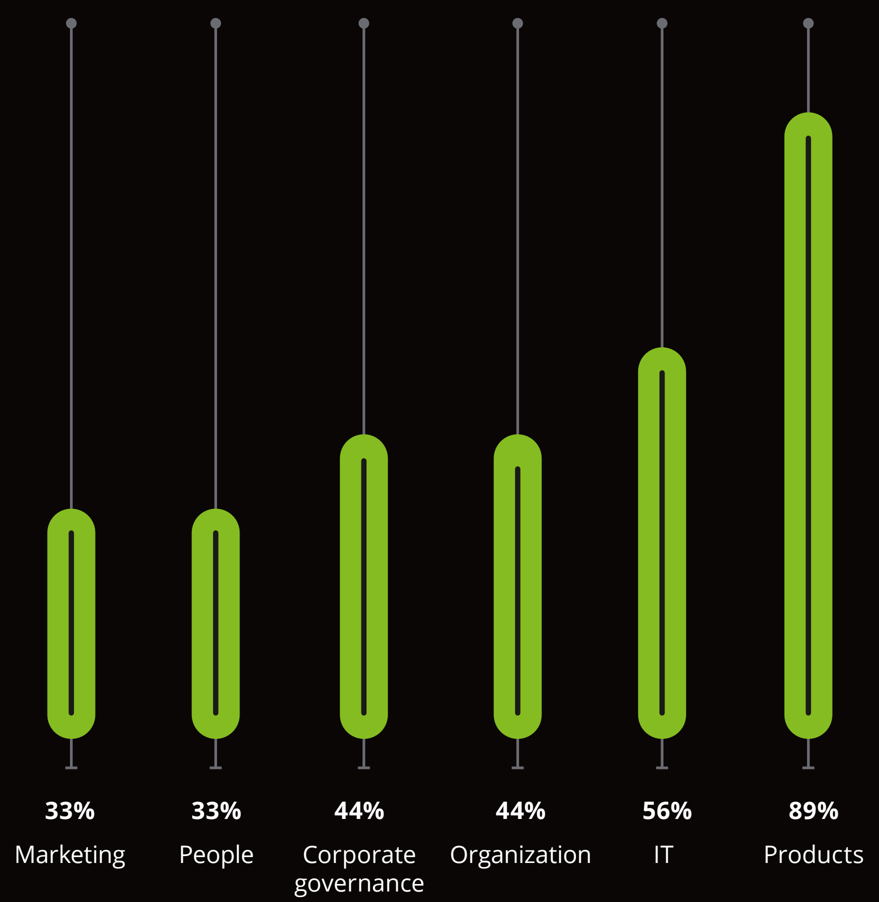
SUSTAINABILITY AND ESG—THE CHALLENGING RISING STAR?

… which is also driven by the European Commission's sustainable finance regulatory agenda, impacting asset servicers' operating models.

Most asset servicers are aware of the European Commission's action plan on sustainable finance and agree that the related regulations will strongly impact their strategic agenda (78%). They identified the UCITS and AIFM Directives, Taxonomy and European Union Benchmark regulations as strong drivers for operational changes. The main areas expected to be impacted are in their product offering, as they will have to tailor their services to sustainable funds (e.g., monitor sustainability risks, and calculate the principal adverse impact of a portfolio), and in their IT departments, as collecting data on ESG will be a significant challenge for them.

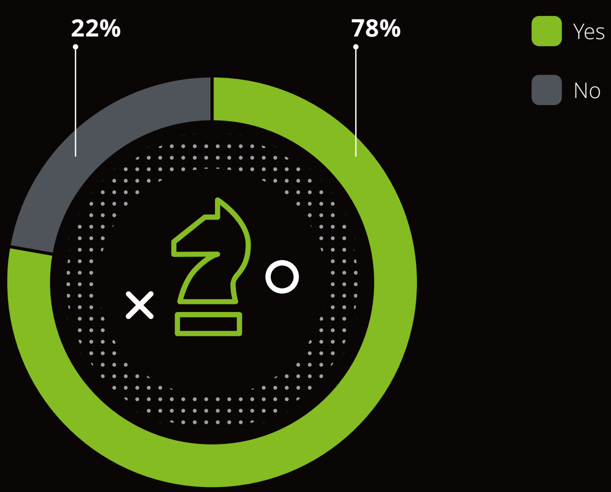
The integration of sustainability topics within asset servicers' business is likely to impact their current main activities …

Which activity of your business model will be impacted by the integration of SRI? (rank by importance)



... due to the emergence of the sustainable finance regulatory framework

Does ESG compliance play a significant role in your strategy development? If "yes", which regulation will impact asset servicers the most?



- Directive on UCITS/AIFMD—integration of sustainability risk and adverse impacts
- European Union Benchmark Regulation
- Taxonomy Regulation

SUSTAINABILITY AND ESG—THE CHALLENGING RISING STAR?

Most asset servicers have identified ESG reporting as a new growth area for them

Asset servicers plan to integrate sustainability within their business through the prism of reporting ...

Do you plan to change your process to integrate sustainability topics within your own business in the next three years? (Yes/No)

100%

of asset servicers **plan to change their process to integrate sustainability topics within their own business within the next three years**

Is this not already too late?

Which services do you plan to develop to support asset managers to meet new investors' expectations?

40%

of asset servicers consider **integrating ESG characteristics in reporting** as one of their top three services they would like to provide to support asset managers in meeting new investors' expectations

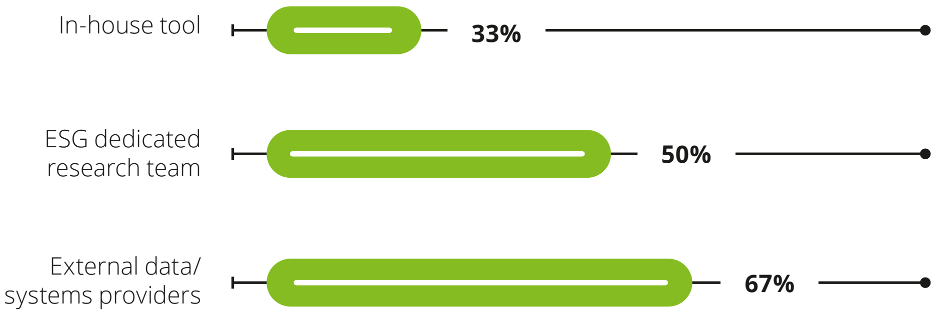
... and are developing their data management capabilities accordingly

Do you plan to make a significant investment in ESG tools within your product line? (Yes/No)

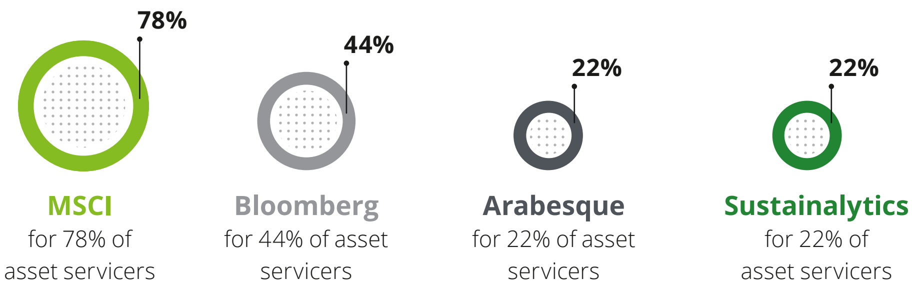
67%

of asset servicers **plan to make a significant investment in ESG topics**

If you plan to make investments in ESG within your product line, will you rely on:



Which data provider(s) are you currently or planning to rely on?
(multiple choice)



Selected data providers are mostly **generalists:**

The key issue with including sustainability in investment and reporting processes remains the lack of reliable and comparable ESG data. Indeed, today's ESG data is mostly provided by external research or rating agencies, which often have incomplete and not comparable data.

To face this issue, asset servicers are planning to rely on both external data providers (67%) and dedicated research teams (50%).

Many global custodians have already started to develop data management and reporting tools that will allow them to inform asset managers and stakeholders about the environmental impact of their investment portfolio. They also generate analytics and annual disclosures. These ESG reporting tools often rely on external data providers' data.

Unfortunately, the issues related to data are not likely to change before the implementation of the Non-Financial Reporting Directive (NFRD). Indeed, as the NFRD is not yet reviewed, there is a lack of consistency on the type of nonfinancial data companies must report on. This leads to inconsistent data at the portfolio level, making the disclosure requirements hard to meet, especially when specific key performance indicators (KPIs) have to be reported.

5 MAIN RESULTS FROM THE SURVEY

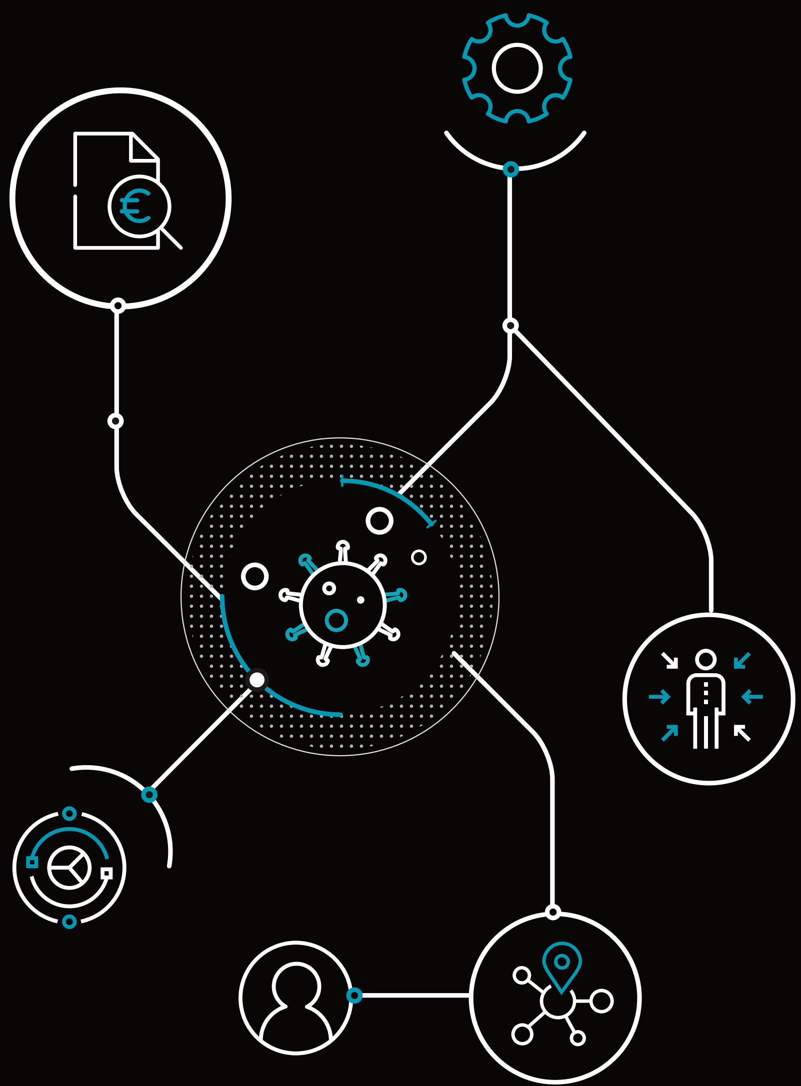
#5

COVID-19

COVID-19—Accelerator or threat?

COVID-19—ACCELERATOR OR THREAT?

The COVID-19 crisis has threatened the operational capabilities of most asset servicers, with a greater impact on fund administration activities.



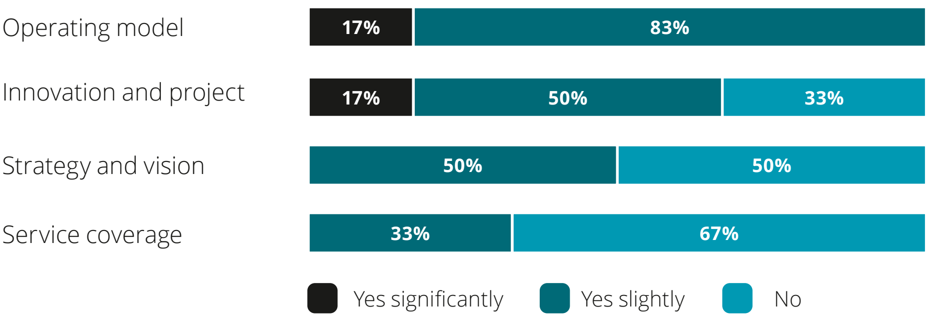
The COVID-19 pandemic struck with full force right in the middle of this year's survey. Aside from the impact felt in people's day-to-day lives, asset servicers were also strongly affected by the crisis and had to rethink their operating model in two weeks. Having more than 95% of the workforce working from home became the norm.

In particular, asset servicers that had outsourced some of their activities to lower-cost regions such as India, where the workforce's access to the internet remains limited, struggled to maintain their business. Some of them had to re-insource their activities in a few weeks. While outsourcing appeared as a strong cost reduction driver before the crisis, it turned out to be a complex operational challenge during the COVID-19 outbreak.

In addition, as the industry witnessed a fast adoption of technologies allowing remote working, asset servicers' digitalization level became an even stronger differentiator. There is a need for asset servicers to ramp up their digital capabilities, as scrutiny from asset managers on providers' capacities to efficiently adapt to working remotely, fight cybersecurity threats and maintain activities will increase after the crisis.

The COVID-19 crisis has mostly impacted operating models …

Have these different areas been impacted by the COVID-19 crisis?



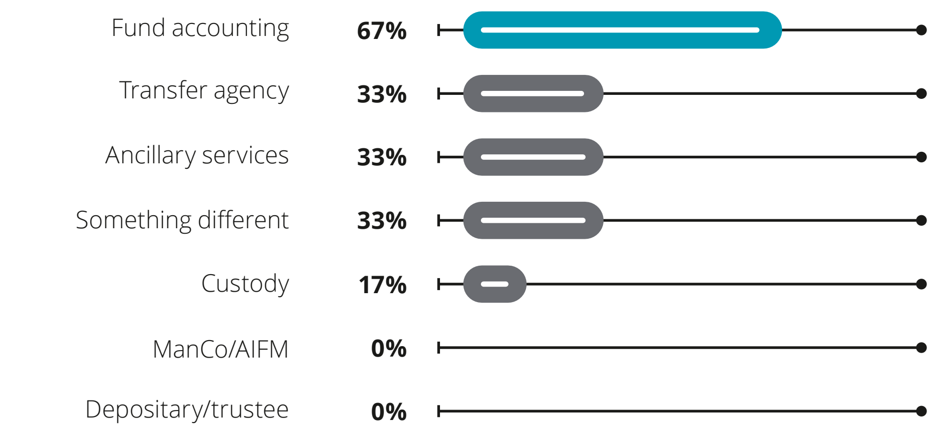
Regarding COVID-19's effect on the operating model, industry players experienced a greater need for multitasking, sharing of tasks, and overall higher agility, coupled with staff training to face the new environment. Regarding other changes, for example risk-management conventions, asset service providers started accepting instructions from their clients via email. To an extent, those with vast operations in Asia were better prepared, as local subsidiaries had already planned for emergency scenarios after previous SARS outbreaks and the turmoil experienced in Hong Kong.

Regarding innovation and related projects, investments focused on acquiring more and better PCs, stronger servers, targeted software and security authentication processes. Furthermore, asset servicers started using technologies at a greater scale that they already possessed but were previously unexploited. Examples include remote working tools, digital platforms for paperless operations, eSignatures, virtual meetings, etc. As a drawback, some of their clients remained committed to traditional authentication processes like wet signatures, requiring some staff to remain on-site to complete these tasks. Also, some servicers realized they were not yet operating in a fully paperless way: the transition proved abrupt.

Finally, leadership at the national level has been empowered, receiving the mandate to articulate the vision of their firm for the times to come. A return to authoritarian management from global HQ is not on the table.

… of fund administrators …

Which activities have been the most impacted? (multiple choice)



COVID-19—ACCELERATOR OR THREAT?

... with, in particular, difficulties to efficiently calculate the net asset value (NAV)

The COVID-19 crisis has led to a collapse of financial markets (March 2020), leading to major sell-offs within investment funds, particularly open-ended funds. These significant fund outflows have also led to increased pressure on fund liquidity and difficulty for managers to pay redemptions to their investors. Consequently, asset prices have dropped, and this volatility has created further challenges to the fair value of assets.

Consequently, many asset servicing firms realized that they were unable to keep up with market volatility. Fluctuations were simply too quick and abrupt, to the point where data became outdated as soon as it was produced and distributed.

Lessons learned from early 2020 created a new momentum in the asset servicing industry. Market participants are fully aware of the need for accurate and timely data, and the related benefits for their clients.

What are/were the main challenges you faced during the COVID-19 crisis?
(multiple choice)

Difficulty in **NAV calculation** due to increased market volatility according to **75%** of asset servicers

Difficulty to **match asset managers' expectations for more communication and transparency** according to **25%** of asset servicers

Lack of IT equipment and systems to support home working at a large scale according to **25%** of asset servicers

Difficulty to **maintain current processes** due to lack of technology-driven processes according to **25%** of asset servicers

COVID-19—ACCELERATOR OR THREAT?

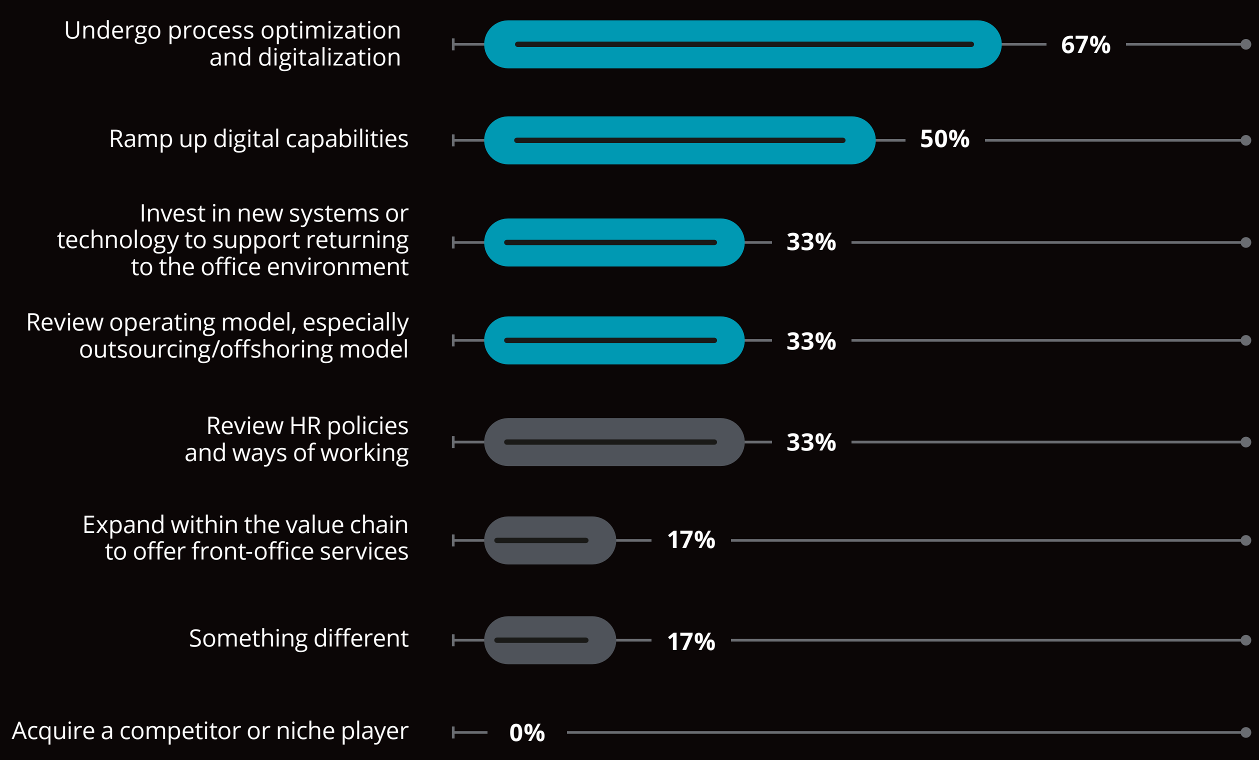
However, asset servicers seem confident in their ability to mitigate the challenges posed by the crisis and now feel better prepared

Two takeaways can be identified from the COVID-19 crisis. Firstly, all asset servicers said they have learned significantly from this pandemic and are thus more resilient for what the future may hold.

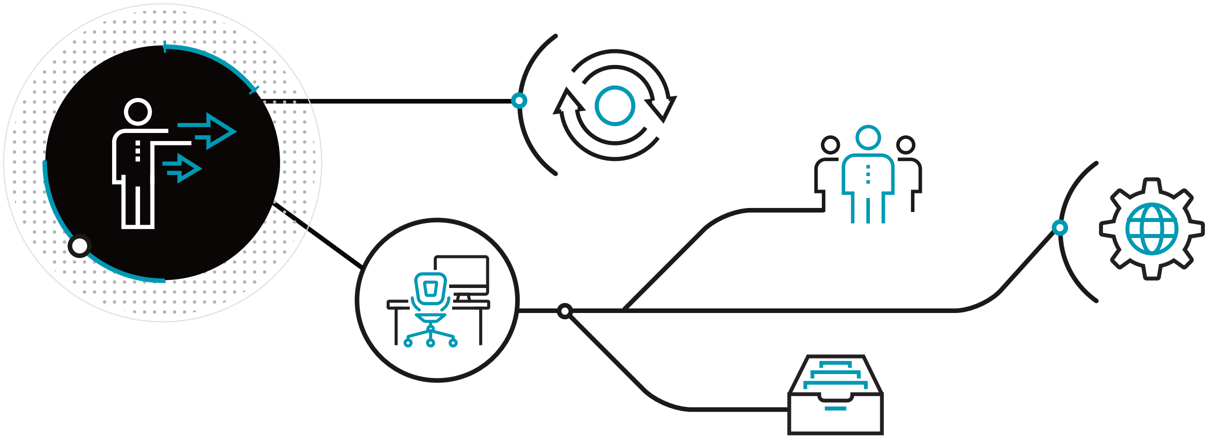
Secondly, the COVID-19 crisis acted as an accelerator for many of the trends that were already underway. There is a strengthened interest in technology and digitalization, as most of the workforce continues to work from home. We also witness particular attention paid to the operating model (offshoring/outsourcing) as efficiency in operations became vital.

Digitalization, optimization, new systems and operating models are the main answers to the challenges posed by the COVID-19 crisis ...

How do you plan to mitigate those challenges in the future?
(multiple choice)

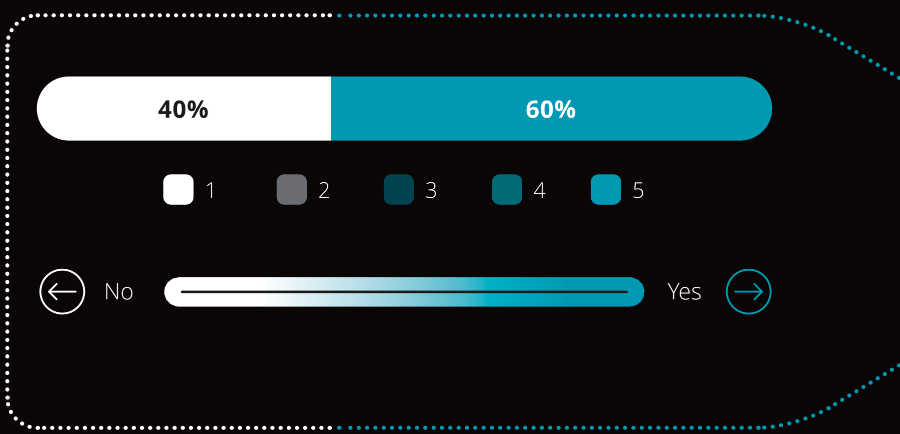


COVID-19—ACCELERATOR OR THREAT?



... allowing asset servicers to feel better prepared and to already start going back to the office

Do you feel better prepared for a possible incident of this magnitude in the future? (scale from 1 to 5)

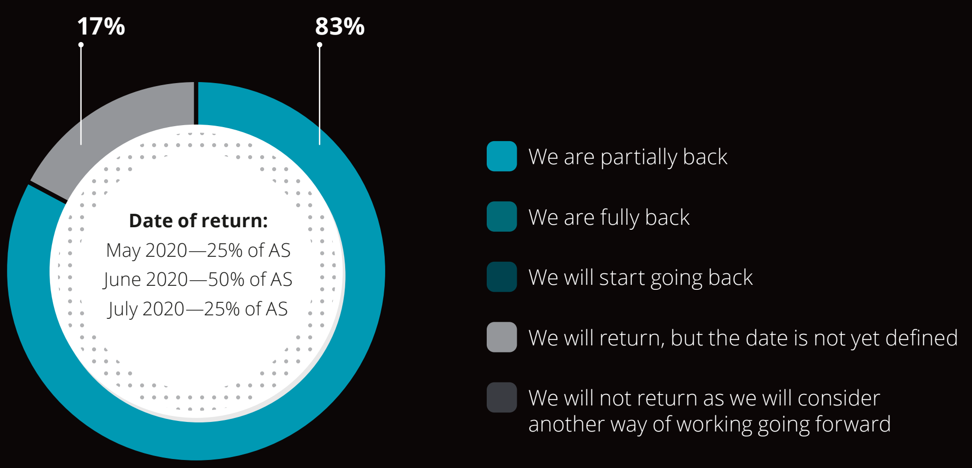


On top of the "hard lessons" learned in the midst of the crisis, industry players report a heightened sense of belonging and commitment from their employees. Similarly, asset servicers have been able to build stronger bonds with their clients, often cementing relationships for the future.

Longer-term consequences will be positive, as there are efforts to extend the current "agile" mindset into the future. Besides, servicers have been positively surprised by the efficiency of virtual meetings, which tend to be better structured and more constructive, and thus expect to maintain this way of operating.

Lastly, some CEOs are thinking outside the box to keep the level of attention high as the situation settles into a new normal. They are integrating scenario simulations into leadership training to build resilience at the core of the company. Looking forward, there will be a push to transform fixed, premises-related costs into variable costs. Throughout the whole profit and loss account, there is pressure to move toward a more agile cost structure.

When will you return to your office?
(single choice)



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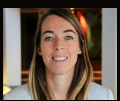

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