



Investment Funds | Asset Servicing Survey 2023

Link'n Learn 2023 – 8 November 2023

Deloitte Asset Servicers Survey - 2023

Introduction



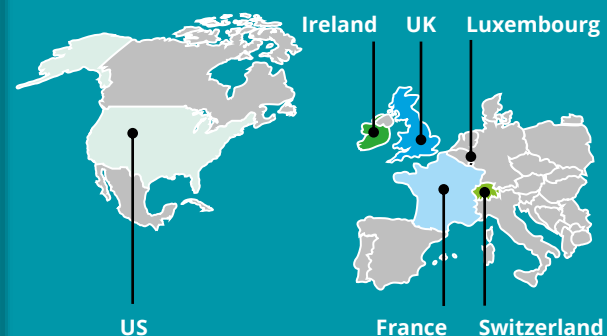
SURVEY PRESENTATION

- The **aim** of this survey is to identify **market trends and challenges** in the asset servicing space and collect and share **industry points of view** on thematic areas
- Complexity of the exercise given the **number of themes** and **participants availability**
- **Recurring format**, alternating between **asset servicers** and **asset managers**
- **Collaboration** across main asset servicing centers



SURVEY SCOPE

- **15** asset servicers contributed to the 2023 Deloitte Asset Servicers Survey
- **\$176** trillion combined assets under administration (AuA)
- **6** countries: asset servicers headquartered across EMEA and the US



REPRESENTATIVENESS

The participants represent 75% of the global market's combined AuA

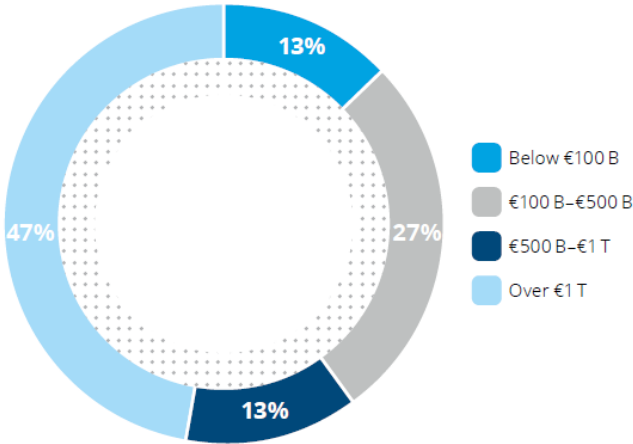




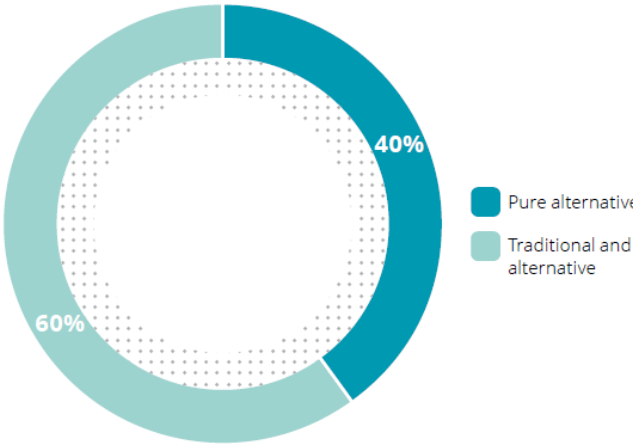
Respondents overview

Respondents overview | Split of participants

Split of participants by assets range



Split of participants by asset class coverage

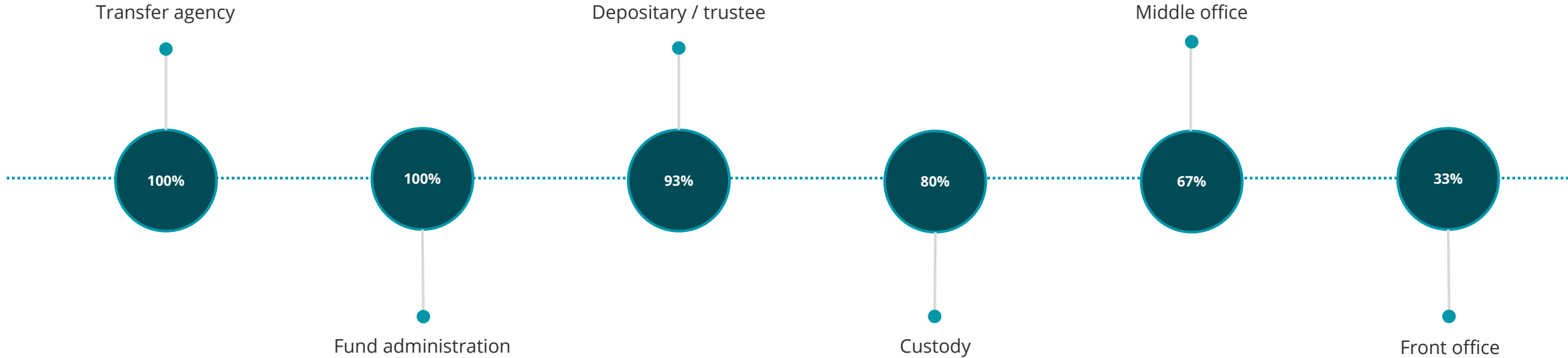


The analysis identified and provided specific examples where answers differed depending on the company's asset class coverage.

The market survey covers the following asset classes:

1. Liquid products
 - Equities
 - Bonds
 - Money market
 - Exchange traded products
2. Hybrid funds
3. Illiquid funds
 - Private equity
 - Real estate
 - Debt
 - Infrastructure
 - Hedge funds

Respondents overview | What services does the respondent panel provide?

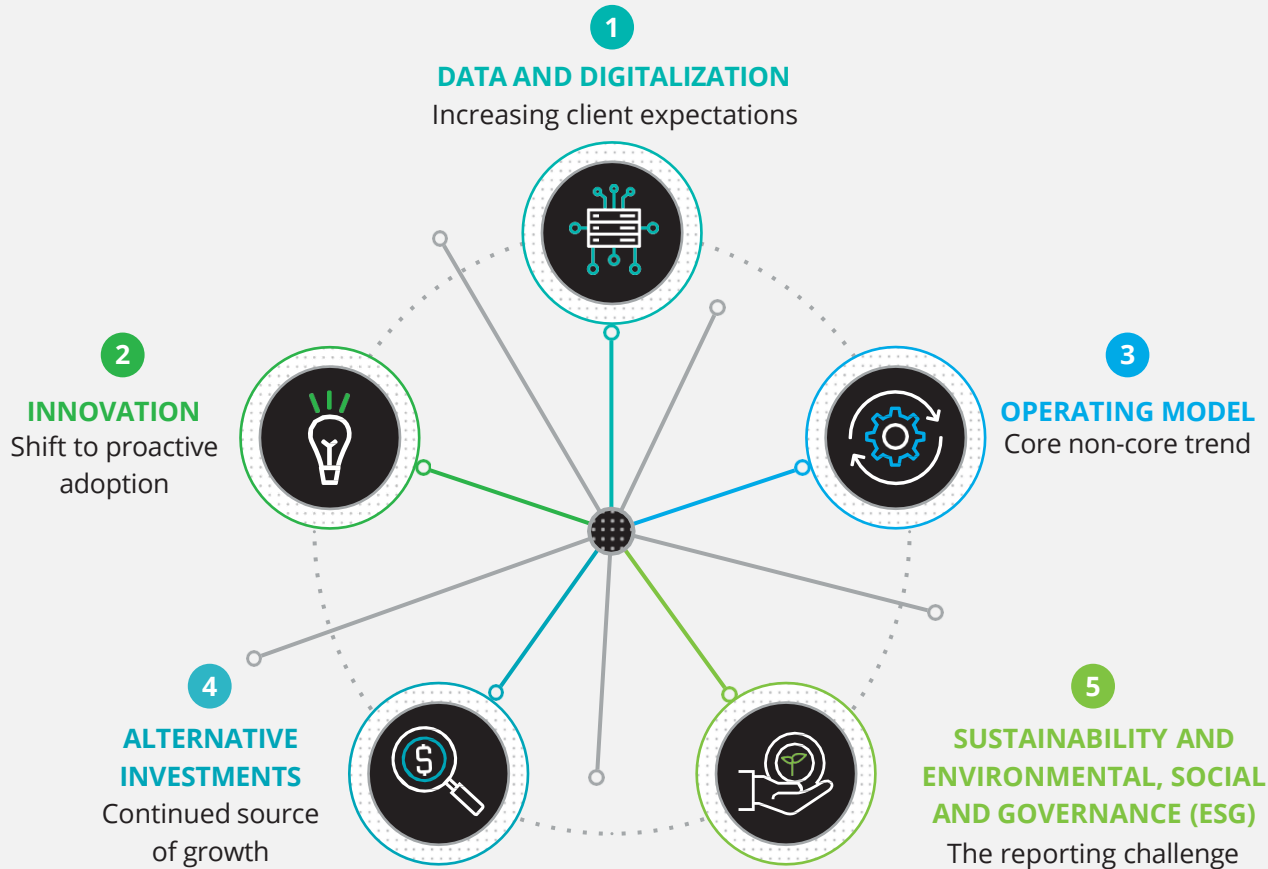




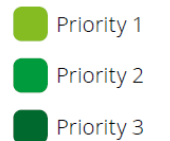
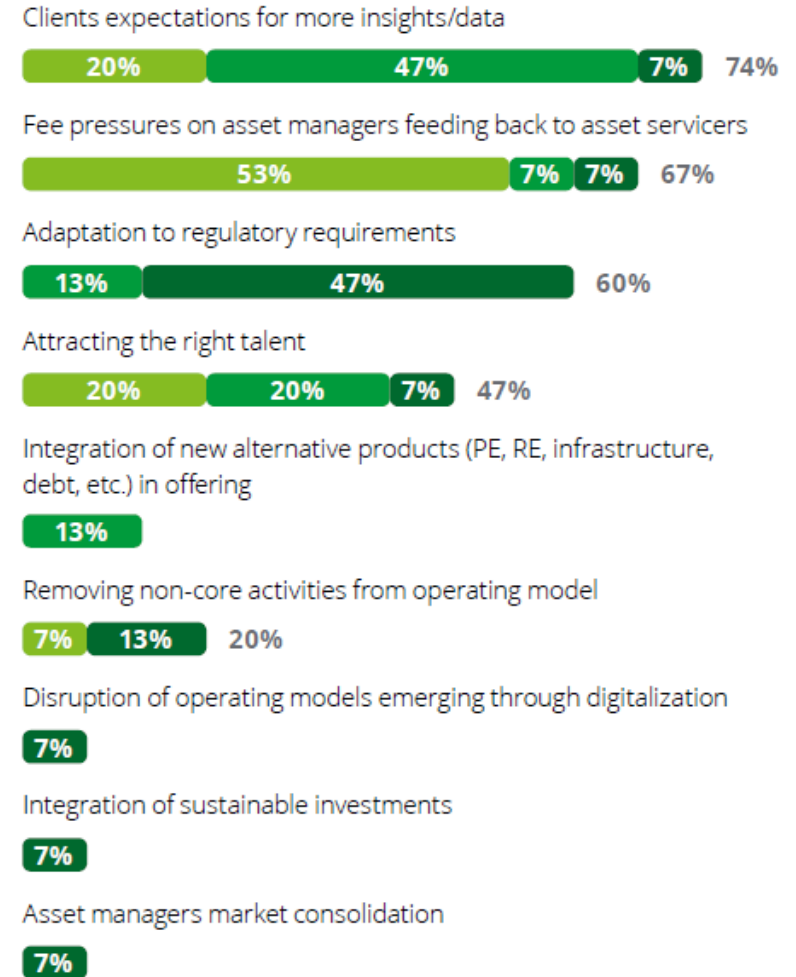
Five key challenges and trends

Arising from our survey

Five key areas covered by our survey



Top-three priorities



#1

Data and digitalization

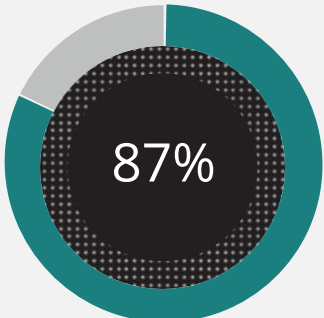
*A key driver for transformational
change*

Data and digitalization

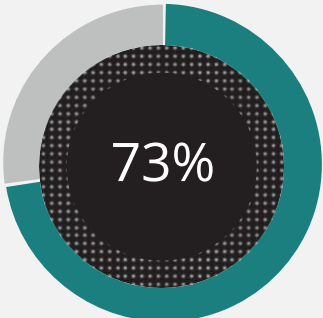
How do you plan to face the main market challenges?



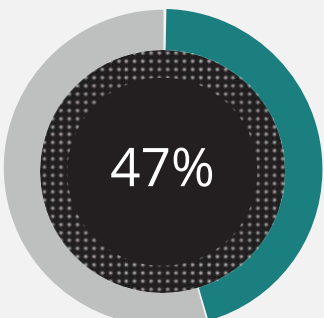
Develop data management system/layers to collect and analyse data



Collaborate with FinTechs or IT systems providers



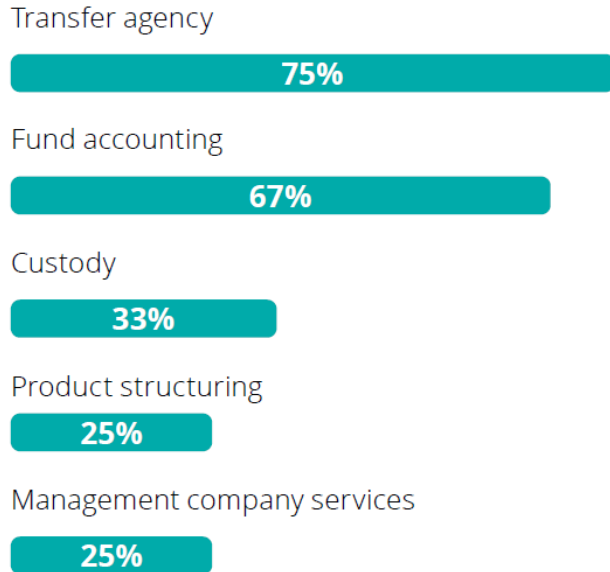
Implement AI solutions



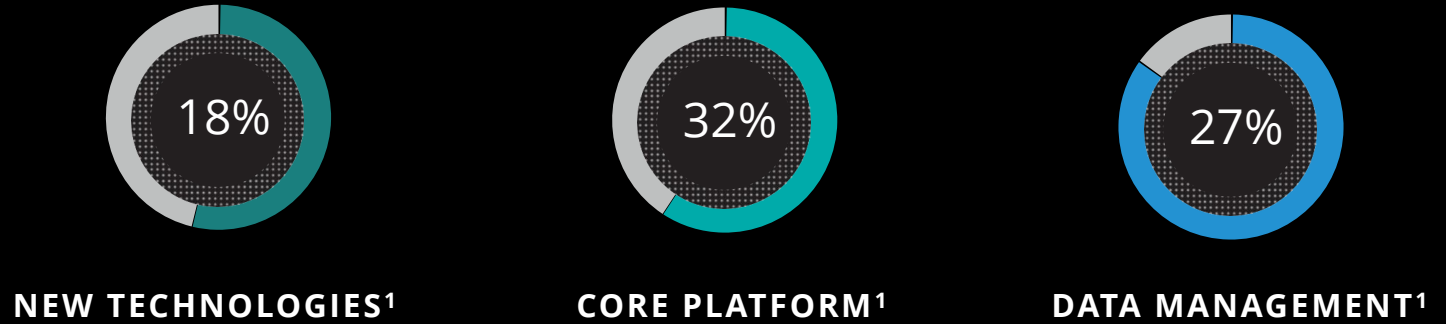
Acquire FinTechs or IT systems

Data and digitalization

Which value chain element do you believe has the highest digitalization potential?



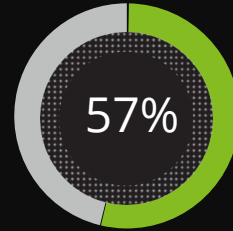
Top 3 budget allocation areas for the next 5 years



Average budget share allocated by the participants ¹

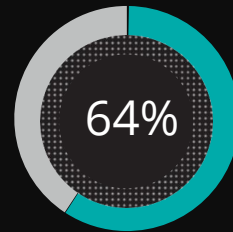
Data and digitalization

Services that respondents plan to develop to support their client's growth



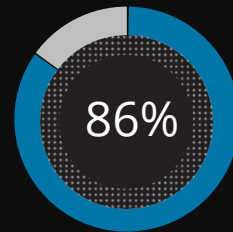
DISTRIBUTION SERVICE SUPPORT

Over half of respondents are planning to build services that support distribution, believing there is a key growth opportunity in expanding transfer agency services within this space against 0% in 2021.



STATISTICS ON INVESTOR BEHAVIOR

Sixty-four percent of respondents want to develop the capability to provide asset managers with insights into investor behaviours, helping managers refine their product marketing to drive alpha against 80% in 2021.



REAL-TIME DATA, SELF-SERVICE MODELS

Most respondents are focused on developing real-time data and self-service models for both portfolio managers and investors, to help them make more informed investment decisions against 80% in 2021.



#2

Innovation

A barrier to transformation

Innovation

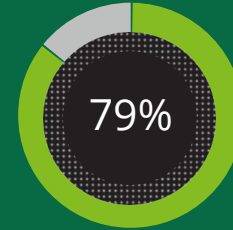
What type of innovation projects do you currently conduct?



OPERATIONAL TECHNOLOGY

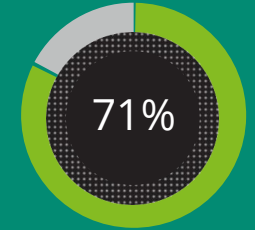
All asset servicers are under pressure to update part of their application landscape to keep the pace with evolution needs.

Similarly, to 2021, all respondents are working on innovation projects around operational technology.



REGULATORY TECHNOLOGY

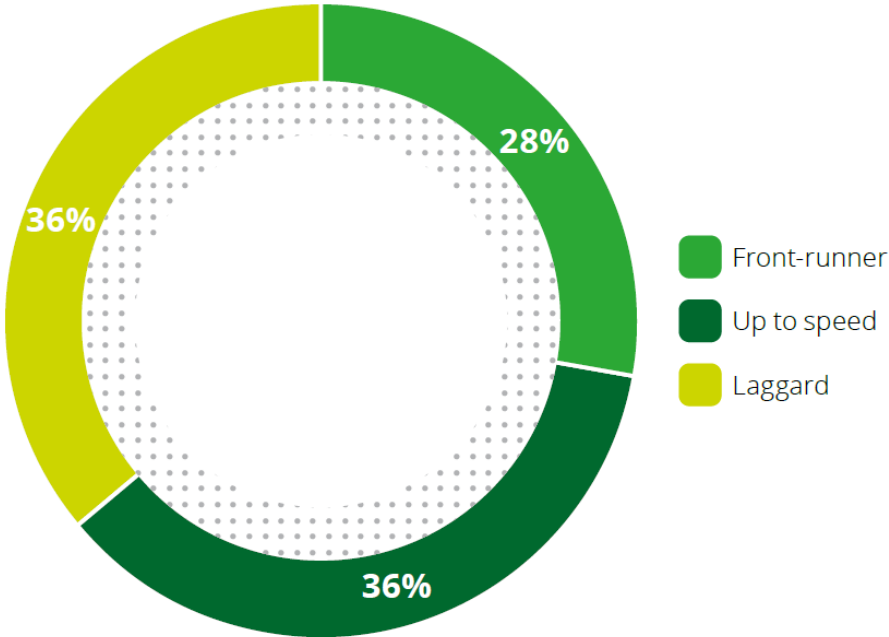
The sector's focus on regulatory technology projects has risen from 60% in 2021 to 79% in 2023, particularly due to the increasing need for ESG reporting solutions.



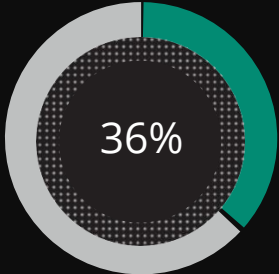
CLIENT ENGAGEMENT

Client engagement related to projects haven't fallen from 90% in 2021 to 71% in 2023, likely due to real-time dashboard reporting now allowing asset servicers to turn their attention to other priority innovation projects

Innovation | Asset servicers grasp there is room for improvement, with 36% believing they are laggards

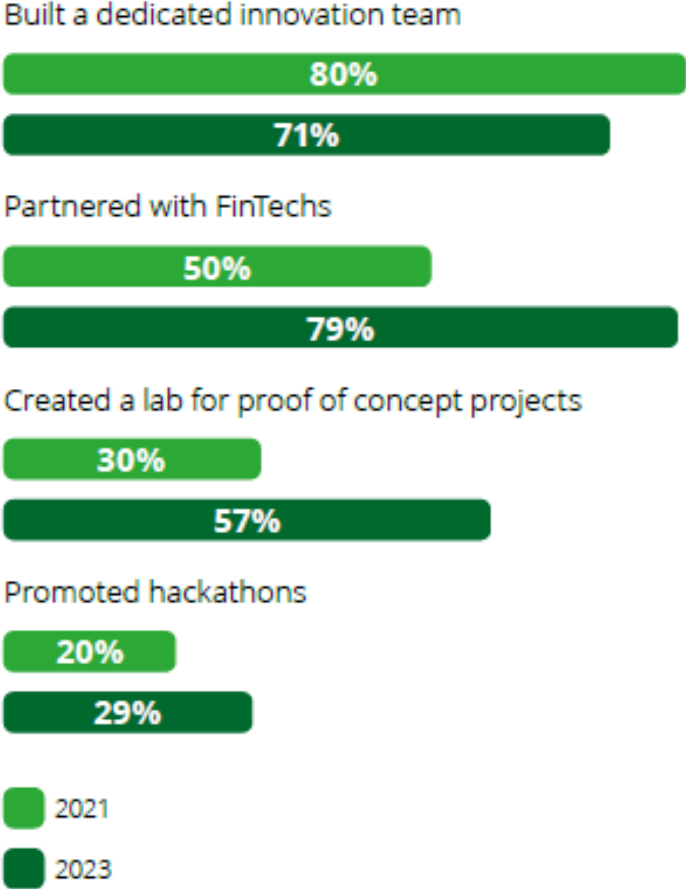


Of respondents viewed themselves as industry leaders in innovation in the 2021 survey

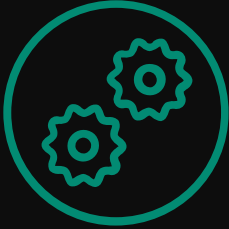


Of respondents view themselves as industry laggards in innovation on the 2023 survey

Innovation | How would you promote and govern innovation within your firm?



Firms encounter a myriad of challenges to get innovation projects off the ground



40% of respondents face change management issues



70% of respondents face regulatory challenges



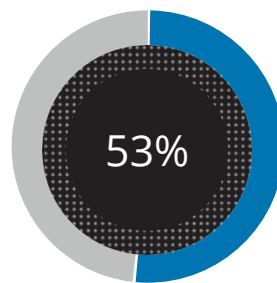
#3

Operating model

Disrupting the value chain

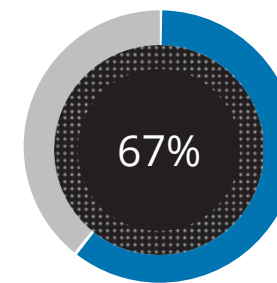
Operating model | How do you plan to face the main market challenges?

Asset servicers are considering several options to streamline their activities, including operational improvement programs and further offshoring and outsourcing.



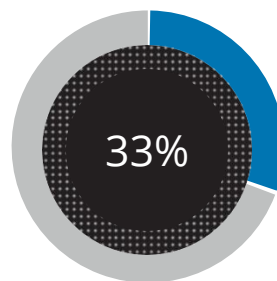
of respondents are engaged in a core / non-core reflection vs 0% in 2021

Review operating model by outsourcing some operations

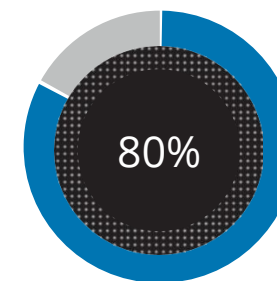


of respondents are considering offshoring to a low-cost location to face current and upcoming challenges, compared to 40% in 2021

Offshore to low-cost location

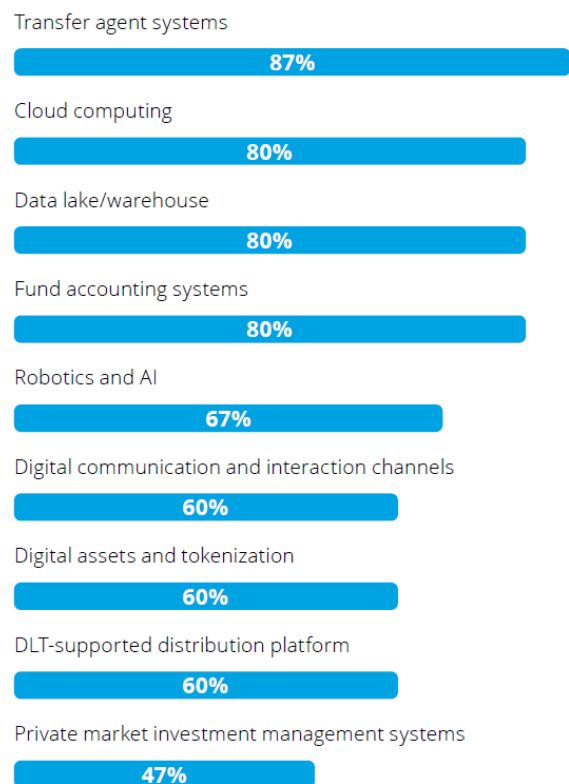


Review operating model by insourcing some operations

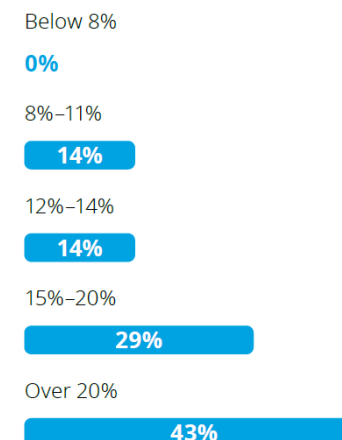


Process optimization / lean management

IN WHICH TECHNOLOGY DO YOU INTEND TO INVEST?



IT IS A SIGNIFICANT CONSUMER OF RESPONDENTS' TOTAL OPEX

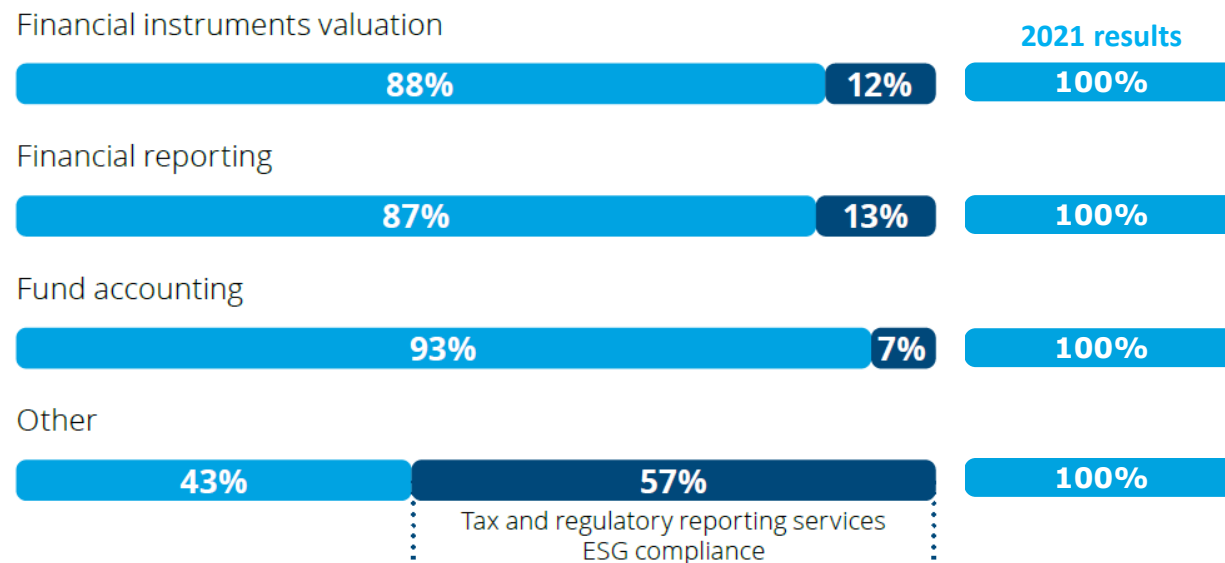


71% of respondents stated that over 15% of their total OPEX is allocated to IT spend

Operating model | Most back-office activities are currently being performed in-house

FUNDS ADMINISTRATION SERVICES

Activities performed in-house/outsourced



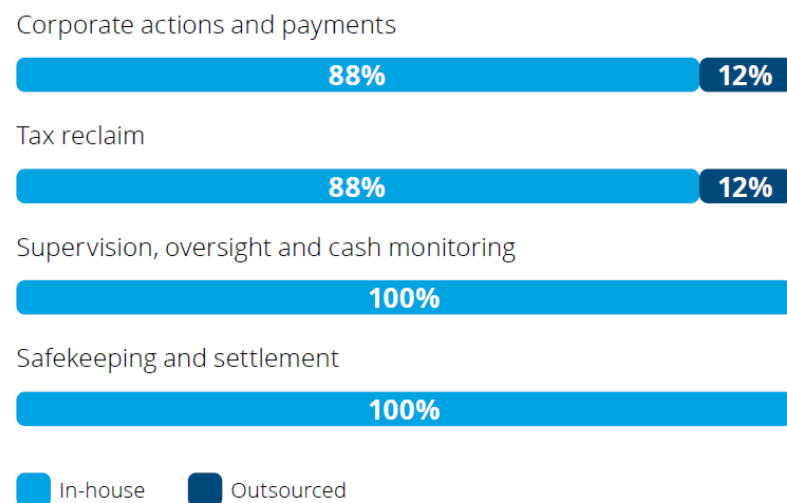
- Asset servicers are outsourcing **non-core activities** such as tax reporting, annual reports reporting services
- Some **computation elements** such as tax calculation, OTC valuation, swing pricing also start to be outsourced

■ In-house ■ Outsourced

Operating model | Most back-office activities are currently being performed in-house

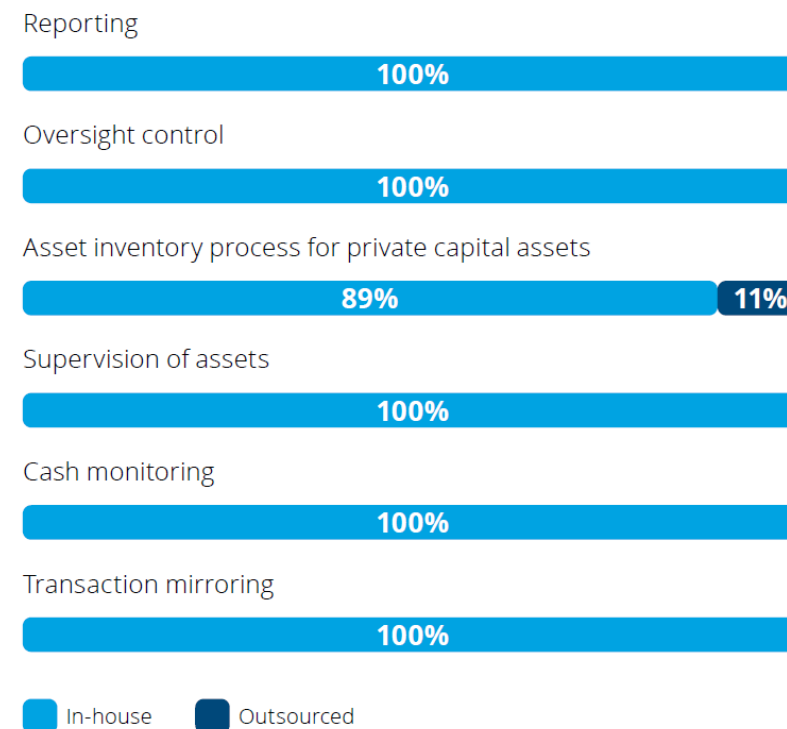
CUSTODY SERVICES

Activities performed in-house/outsourced



DEPOSTARY / TRUSTEE SERVICES

Activities performed in-house/outsourced



In line with the core versus the non-core trend, asset servicers are **outsourcing tax reclaim**, activities to leverage subject matter expert (SMEs) ability. In addition, they are outsourcing **corporate action** activities to specific platforms.

Depository services are **rarely outsourced**, given the global ownership and responsibility asset servicers usually have over these activities.

Operating model | As Asset Managers look to outsource non-core activities, there is an opportunity for asset servicers to move up the value chain by offering Front-to-Back solutions

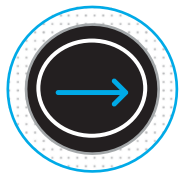
Asset Managers are experiencing the following challenges*



Fee pressures on asset managers are continuing to put pressures on their margins.



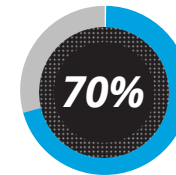
Asset Managers are undertaking large transformational programmes of work identifying **core vs non-core** to their operations.



Asset managers are looking to create efficiencies in their operations by **outsourcing non-core activities**

**Deloitte Asset Manager's survey, 2022*

This provides asset servicers with the opportunity to **move up the value chain**

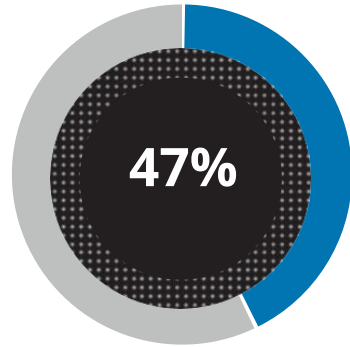


of asset servicers in 2021 believed that front-to-back solutions would come to market in the **next 5 – 10 years time**

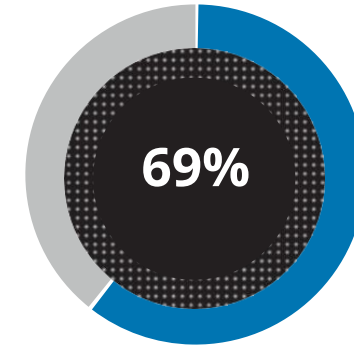


In 2023, front-to-back solutions **have accelerated** within the market, primarily driven by the asset managers agenda to remove non-core functions from their operating models and offerings in the market

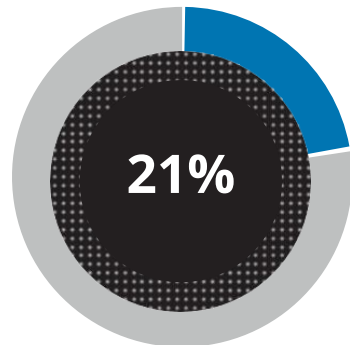
Operating model | The talent war has firms worried about their current and future ability to attract the right



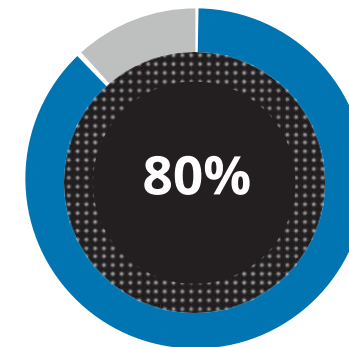
of respondents identify **attracting the right talent** as a top-three challenge today



of employers are **having trouble filling roles** because of a lack of candidate skills - a 15-year high



of employers are **reducing requirements** for skills and experiences



of **pure alternative players** consider attracting the right talent as a top-three challenge today

#4

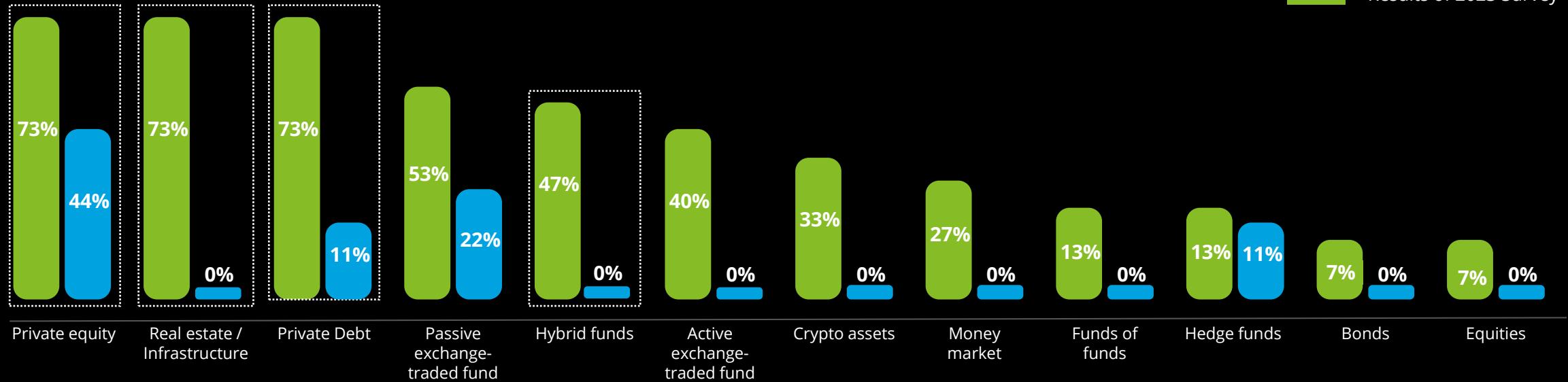
Alternative investments

*A continued source of revenue
growth*

Alternative investments | Alternative investments remain a significant source of growth for traditional alternative players

Alternative assets are believed to have the strongest growth opportunities

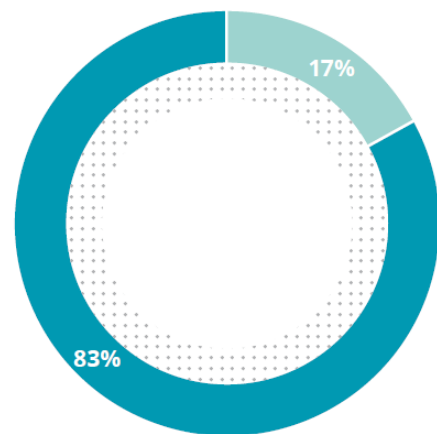
From which asset class do you see the best growth opportunities?



Asset servicers are growing their capabilities through **strategic acquisitions** and **building internally** to support growing demand from the alternatives industry

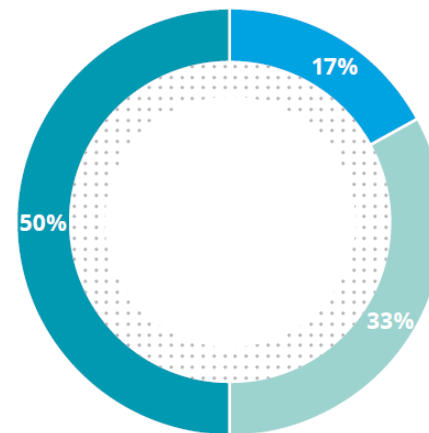
Alternative investments | Alternative assets are considered to have the strongest growth opportunities

Performance of pure alternative asset players in terms of **revenue** over the last 5 years



Between 0%–10%
Over 10%

Performance of pure alternative asset players in terms of **profits** over the last 5 years



Between -10%–0%
Between 0%–10%
Over 10%

#5

Sustainability and ESG

*A transformational challenge for
operations*

Sustainability and ESG | Adapting to regulations remains a challenge requiring significant budget allocation ... but also creates opportunities for asset servicers to develop ESG reporting capabilities that meet client expectations

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

Clients expectations for more insights/data



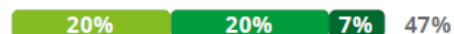
Fee pressures on asset managers feeding back to asset servicers



Adaptation to regulation requirements



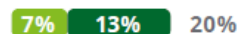
Attracting the right talent



Integration of alternative products (PE, RE, infrastructure, debt, etc.) in offering



Removing non-core activities from operating model



Disruption of operating models emerging through digitalization



Integration of sustainable investments



Asset managers market consolidation



- Priority 1 among asset servicing market's main challenges
- Priority 2 among asset servicing market's main challenges
- Priority 3 among asset servicing market's main challenges

Investors main ESG expectations

Expect to invest into liquid alternative products



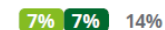
Expect tax neutral investments



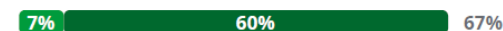
Expect to pay high fees only if they get high return or non-financial impacts



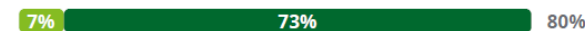
Expect to invest in low-cost passive funds



Expect to invest their savings into sustainable funds



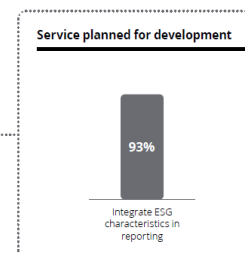
Expect to have access to their portfolio on digital supports in real-time



Expect a seamless and customized investment experience

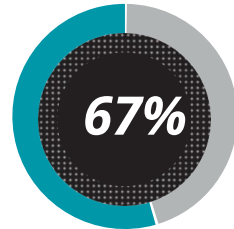


- Priority 1 among asset servicing market's main challenges
- Priority 2 among asset servicing market's main challenges
- Priority 3 among asset servicing market's main challenges



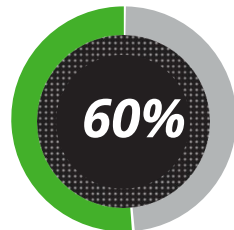
Sustainability and ESG | The challenge of ESG-related regulations will continue to require significant and ongoing budget allocation by asset servicers

Asset servicers expect investors to prioritize the ability to invest in sustainable funds



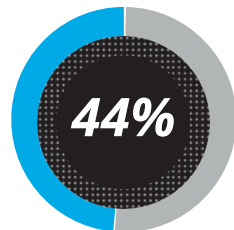
of asset managers expect to invest their savings into sustainable funds compared to only **20%** in the 2021 survey

Adapting to regulations remains a challenge requiring significant budget allocation



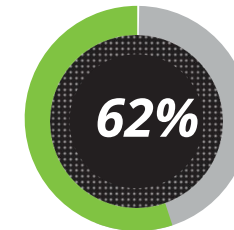
of asset servicers believe adaptation to regulatory requirements is a top 3 market challenge for them

Obtaining reliable data and MI remains an issue

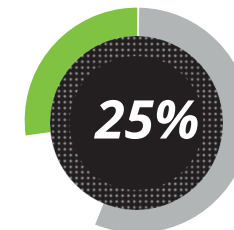


of asset servicers are planning or are currently developing ESG data analysis tools which they rely on external data providers for

There is clear room for improvement in the sector's ESG reporting capabilities :



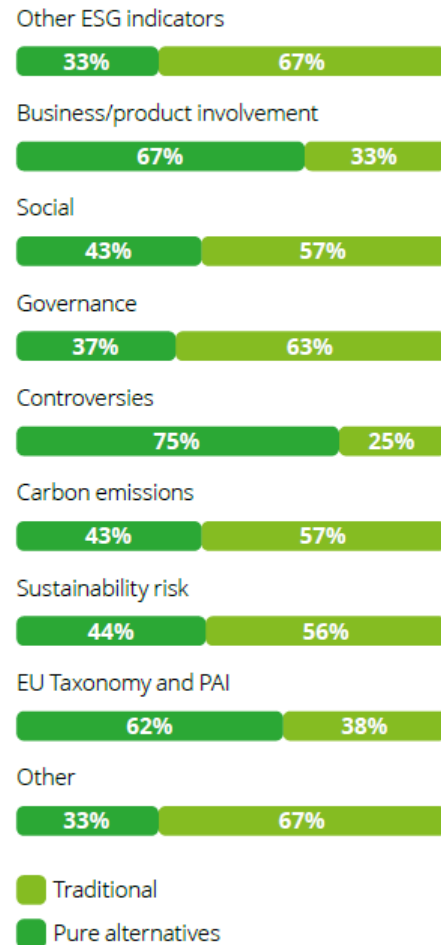
of asset servicers cover PAIs, a part of pre-contractual and periodic disclosure templates



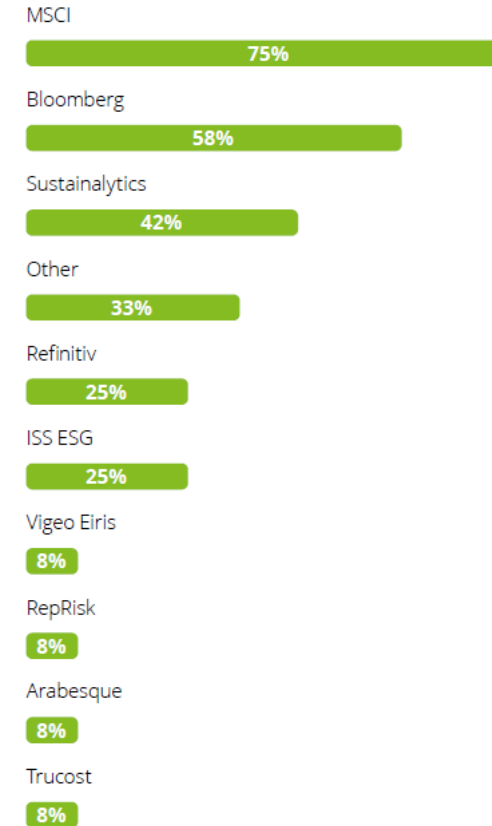
of asset servicers don't check ESG restriction controls whilst the rest use a combination of data vendors and pre-approved eligible securities

Sustainability and ESG | Reporting scope and data providers

What is the current scope of your ESG reporting?



Which data provider are you currently relying on?



Stay tuned for the **Next Link'n Learn webinar**



22/11/2023



**Technology & Innovation | AML/CTF and
due diligence on counterparties**



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