



NORTHERN
TRUST

DRIVING GROWTH IN ASSET MANAGEMENT 2024



A WBR Insights & Northern Trust White Paper

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Key Findings

Prioritizing quality and accuracy and improving the investor experience

In previous surveys, we have seen a strong focus on cost control. However, 2024's iteration reveals a pivot to a focus on enhancing quality and accuracy as firms look to improve the investor experience. Asset managers need to optimize the products they offer their clients, and the majority of our respondents (72%) see enhancing quality and accuracy as a top strategic priority for the next two years. 70% view improving the investor experience as a top strategic objective, further emphasizing a client-centric approach.

Evolving product strategies

Focusing on the investor requires a clear vision and a deep understanding of client needs and market trends. This is highlighted by 83% of our respondents who plan to change their product strategy in the next two years. This strategic shift emphasizes the need to cater to diverse investor needs. For example, an investor nearing retirement will require a different product mix than one who is just starting their investment journey. Optimizing strategies to reflect this should be a key focus moving forward.

Engaging with specialty providers

Data management presents a significant challenge for global asset managers, and a clear strategy to enhance data analytics and generate actionable insights is a must. Asked how they plan to address data challenges in the next two years, 57% of our respondents said they intend to engage a specialized data service provider, while 45% will seek a custodian's outsourced data solutions. This underscores the increasingly prevalent approach of partnering with service providers to advance data management capabilities in response to evolving product strategies. Each firm is different and will have unique requirements, highlighting the need for customizable solutions offered by such providers.

An increasing partnership with outsourcers

A recurring theme throughout the survey was the heightened significance of data and analytics. The vast majority of respondents (83%) who are considering outsourcing will do so to augment their data management capabilities. Furthermore, 59% are looking to outsource securities finance, and a similar trend emerges when it comes to liquidity management, trading and foreign exchange. As asset managers look to evolve their product strategy, launch new products, and enter new markets, they may need to turn to providers such as Northern Trust to address the escalating challenges associated with data management and capital market operations. This reliance is driven by confidence in the unparalleled expertise offered by external providers, expertise that may not be readily available internally.

Controlling cost is still important

While a shift in focus towards improving investor experience is undeniable, controlling costs remains a critical challenge for asset managers. To achieve this balance, nearly 70% of respondents are exploring product rationalization, and 60% are eyeing automation and investment in technology. This approach tackles limited resources and market volatility by ensuring only successful products remain available. Investing in automation and technology further ensures they deliver the right products to clients. This two-pronged approach helps them balance cost control with the priority of improving the investor experience.

Introduction

'Right product, right fit' is key for strategic growth

The landscape for asset managers is evolving, and so are their strategic priorities – they have shifted their strategic focus inward, looking at ways to improve their investor experience. This was a finding in our most recent survey and is a bit of a departure from the past, when controlling costs was a top concern. Managers are enhancing the investor experience by increasing quality and accuracy, deploying targeted distribution strategies, employing better data management and outsourcing.

In 2024, we found that asset managers are focused on nurturing the client relationships they have already established to provide the best value to their investors. They want to offer a high-quality product, and a big part of that comes down to having accurate data, consistently. It's a two-way street, because investors must be able to understand their managers' decision-making, and having access to consistently accurate and consumable data enables this. As managers continue to focus on their clients, enhanced quality and accuracy can help them accomplish their goals.

Today, managers are employing a 'right product, right fit' strategy, leaning into known successes. To do this, they are honing their distribution strategies and deploying technology to aid in decision-making and analytics. Managers have shifted their attention to supporting asset classes like infrastructure, digital assets, and real estate. However, moving into these new asset classes can increase the complexity for managers, and many are seeking a 'holistic' operating model they can utilize across asset classes to maximize their efficiency. This efficiency also translates to a better investor experience.

The common thread woven into many of the challenges asset managers face today is data – data enables effective decision-making, and managers have to get it 'right'. Data sourcing is one of the top challenges that managers face when launching new products. This can impact the investor experience, because managers must be able to provide transparent and digestible insights to their investors. Many managers are looking to enhance their data management strategies by engaging their custodians for outsourced solutions. They are also looking to new technologies, such as AI, generative AI and cloud adoption, to help address their data challenges.

And while some managers may have de-emphasized cost control recently, those who are focused on reducing costs look to outsourcers to augment their expertise across capabilities such as securities finance, liquidity management, and trading. They are also turning to outsourcing for investment analytics and other support tools that will aid in their decision-making.

Strategic growth has taken a new shape in our most recent survey. Managers who over the last few years have focused on removing cost from their operating models have recalibrated their focus toward their investors. Yet optimizing the 'right product, right fit' distribution strategy requires high-quality, insightful data and capabilities that many managers may not have in their toolkits. The stakes are high, and managers are leveraging a combination of outsourced solutions, enhanced technology and analytical tools to improve the quality of their investor experience.

“The common thread woven into many of the challenges asset managers face today is data – data enables effective decision-making, and managers have to get it ‘right’.”

Methodology

In Q1 of 2024, WBR Insights surveyed 300 CEOs, CIOs, Directors of Operations and senior executives from across APAC, EMEA and North America regions, from asset management firms with assets under management (AUM) of \$500bn and below.

Our survey seeks to determine how strategies have changed since 2022, given the current ecosystem of market and industry influences. The survey was conducted by appointment over the telephone. The results were compiled and anonymized by WBR Insights and are presented here with analysis and commentary from Northern Trust contributors across APAC, EMEA and North America.

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

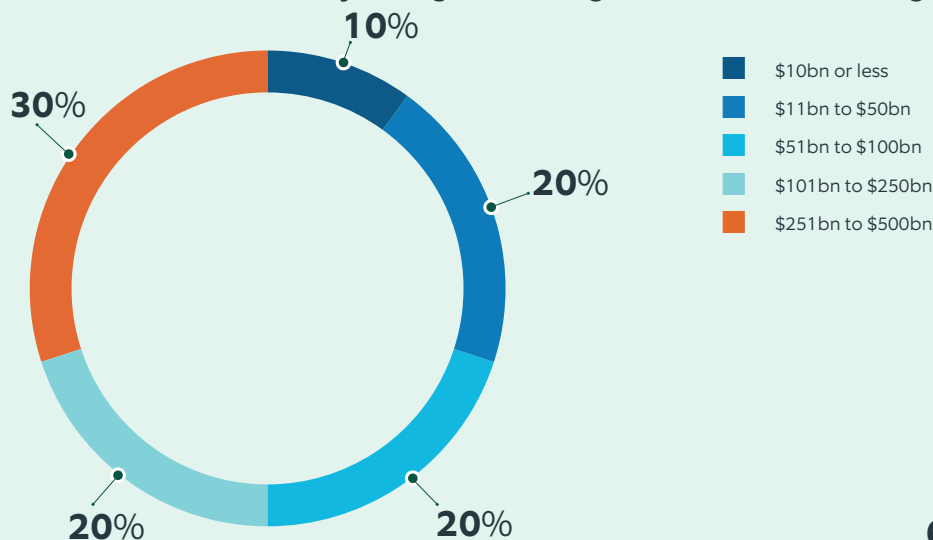


Fig. 1

In which country is your company headquarters located?



Fig. 2

Which of the following best describes your job title?

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

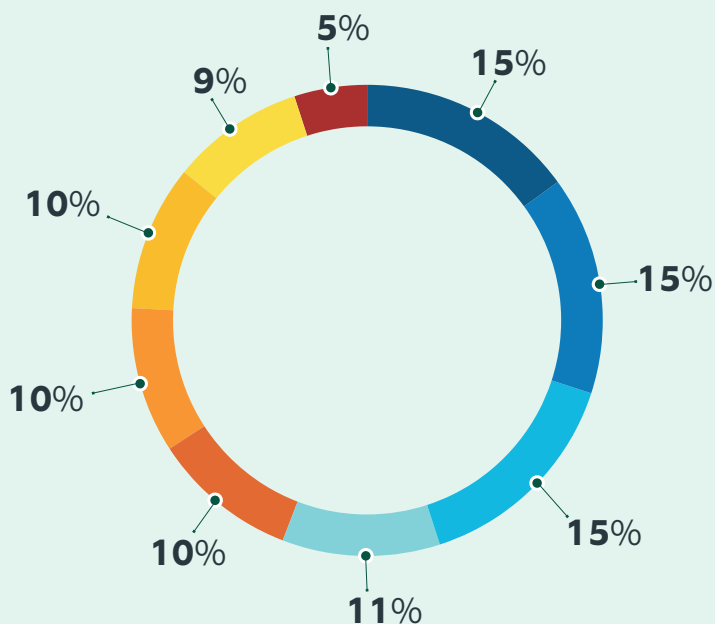


Fig. 3

What asset classes does your firm currently manage?

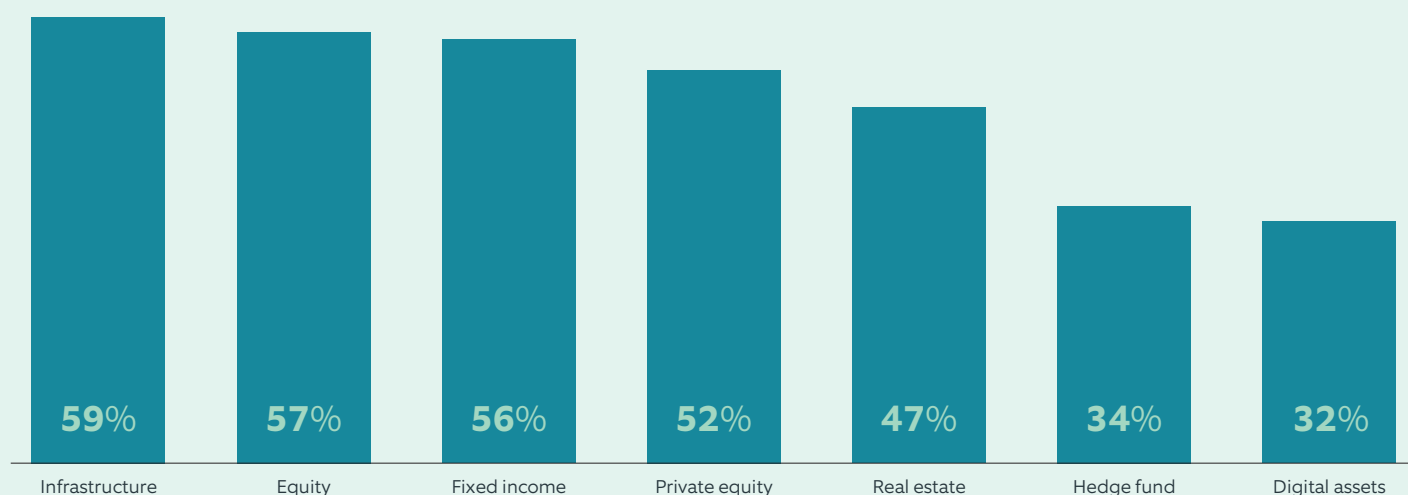


Fig. 4

CHAPTER ONE

STRATEGIC PRIORITIES: LOOKING TOWARD THE FUTURE



In an increasingly competitive landscape, asset managers are looking for new ways to enhance the investor experience by optimizing product offerings and implementing a highly targeted client product mix. This approach aims to deliver best-in-class experiences.

Further elevating quality and accuracy is key to optimizing product mixes. New technologies and tools can be leveraged to update data management processes and revolutionize the way in which products are targeted toward certain investors.

What are your strategic priorities for operations in the next two years?

Respondents were asked to select all answers that applied.



Fig. 5

We see a focus on risk and compliance that is one of the top priorities in this year's survey. It is increasingly important for managers who have regulatory requirements to be sure that data is reliable and that they can evidence their operational resiliency.

This ties into the priority around quality and accuracy, not only for the provision of services to investors, but also to comply with regulators' requirements. It is important that both asset managers and their providers have strong plans in place to ensure that they have operational resiliency to ensure that data is available as and when it's required.

The responses to this question tell us that managers are aligned around protecting their existing investors and giving them a consistent experience, and you can see that jump off the page with both 'improve the investor experience' and 'enhance quality and accuracy' as the top two priorities.

The respondents want to provide good value and protect the revenue stream that they have via their existing client relationships. You have to provide good quality product, you want your investors to be happy with the products that they have already purchased from you, as well as honing in on the products themselves that may provide future revenue opportunities with those same investors. Overall, I think these are some really compelling and consistent answers across a wide range of asset managers.

It is interesting that this year, managers are moving away from a focus on cost, which we have seen in previous years' surveys, and shifting to focus more on quality and accuracy, ensuring they can attract new investors, while retaining and growing their existing investor base.

There is a clear evolution of the managers' focus over the past 5 years, shifting from a key consideration of cost drivers and solutions around their target operating model including outsourcing non-core functions. These initial goals have been achieved, and while controlling costs remains key, the message is clear - the right product to their investors and ensuring the highest quality of their product offering.



Clive Bellows



Ryan Burns



Caroline Higgins

How asset managers are gaining a competitive advantage

Our two previous surveys identified cost as a key focus. However, managers have since adopted new technologies and operational approaches to minimize expenses and shrinking margins. While controlling costs remains vital, enhancing quality and accuracy and improving the investor experience are now the top strategic priorities. Changing market structures, such as T+1 in North America, emphasize the challenges of providing exceptional investor experiences.

Achieving higher quality and accuracy is a top priority for 72% of our respondents and will involve leveraging new technologies and data science capabilities to optimize product selection, analysis and client allocation. This aligns with improving the investor experience, a priority for 70% of respondents.

For asset managers focused on supporting new asset classes in the next two years, 71% of respondents plan to increase allocations to infrastructure, with real estate at 49% and fixed income at nearly 40%.

This shows a consistent strategy to move toward asset classes that offer investors longer-term growth opportunities.

This indeed paints a picture of a pivot in strategy to ensure a best-in-class experience for investors. When asked exactly how they intend to achieve their priorities in the next two years, the vast majority of respondents (83%) said they will change their product strategy, and 77% said they will leverage new technology.

As managers look to evolve and optimize their product mix, the interest rate environment must be navigated with caution, and will play a big role in how managers select products. According to our research, 27% of managers will increase the use of derivative products as they strive to manage liquidity amid high interest rates, and 26% are increasing cash balances with custodians.

Evolving client needs necessitate the right technology, processes, product mix and distribution strategies to adapt and provide continuous support, and asset managers will focus on these areas in the coming years.

For those who chose 'supporting new asset classes', in what areas do your firm plan to increase allocations?

Respondents were asked to select all answers that applied.

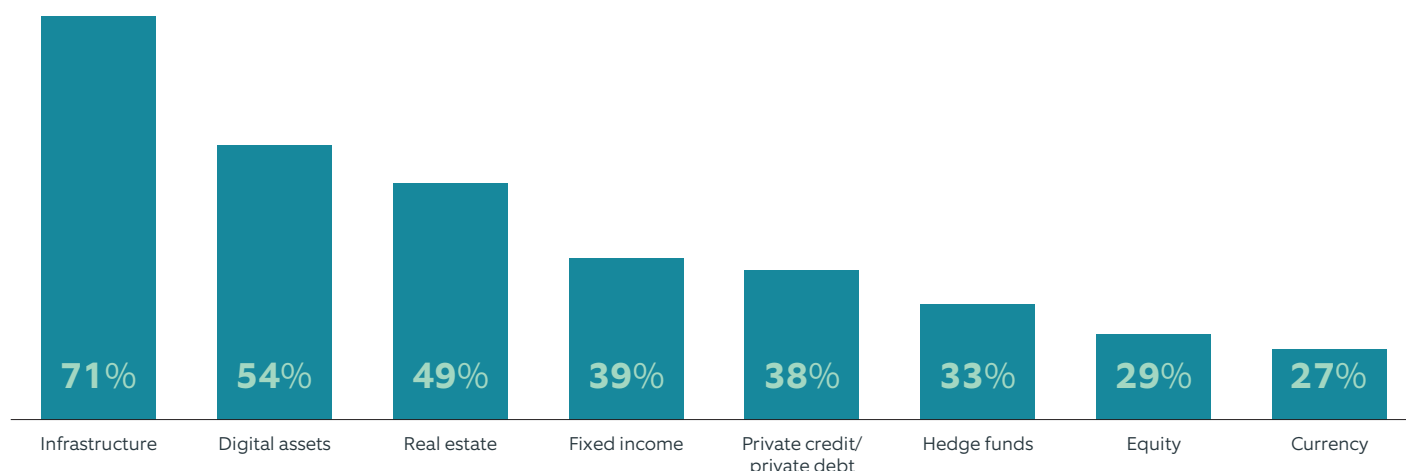


Fig. 6

From a European perspective, our clients are very focused on new product availability that is going to be facilitated by the UK Long-Term Asset Fund (LTAF) and European Long-Term Investment Fund (ELTIF) 2.0 fund structures.

This also aligns well with the broader growth that we see emerging in semi-liquid structures. We are doing a significant amount of work to ensure that we are in position to support our clients as they launch these products, including several interested in launching LTAFs and ELTIFs. We expect to be live in supporting a number of these with significant capital commitments by the end of this year.



Clive Bellows

I think that all asset managers are looking at their provision of new asset classes as an extension of their investor experience. Adding products like infrastructure, digital assets and real estate allows asset managers to give their clients a more holistic offering.

At Northern Trust, we are focused on ensuring that our custody and fund administration services, coupled with our data capabilities, allow the operating models of these firms to pivot as they expand their asset mixes. Our data warehouse solutions, or DWS, is a good example of that. DWS helps normalize data so that regardless of the investment strategies, our clients can provide a consistent experience to their investors.



Ryan Burns

Given the diversity of the APAC region and the large-scale investment of third-party investment management by the asset owner segment, strategies are focused on offsetting against volatility with longer-term growth to support the ongoing aging population. Sustained, consistent growth requires broader asset optionality and products that will assist with hedging against volatility.

As such, we are seeing a shift towards infrastructure and alternative-type assets. It is not surprising that digital assets are increasing and there is a shift towards longer-term investment in digital assets versus more short-term gains that we saw two years ago.



Caroline Higgins

How will you achieve your priorities in the next two years?

Respondents were asked to select all answers that applied.

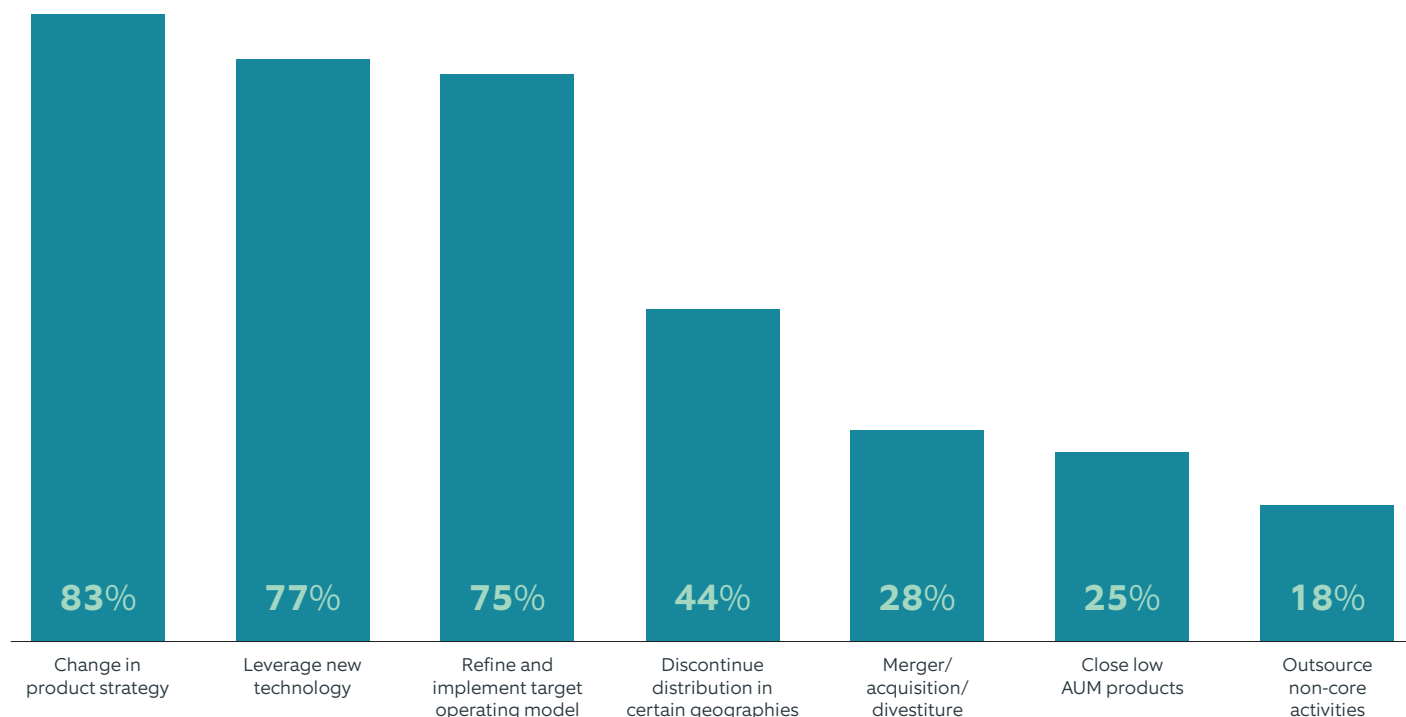


Fig. 7

We are seeing a clear trend across our asset manager clients that are looking to consolidate product and make sure that they are focusing on the strategies where they have the best opportunities for achieving distribution success. And they are looking at leveraging the right technology to help them get there.

While cost containment continues to be important, asset managers are increasingly focused on ensuring that their operating models are scalable and aligned with the requirements of product strategy, as this will increase their chances of achieving their strategic objectives.

In prior years, our survey results showed a real focus on cost and with this year's results we see that respondents are expanding their product strategies, looking at assets like infrastructure and real estate and digital that may be new to them. Again, a focus on the investor experience.

The other key results of leveraging new technology and refining the operating model are where we see opportunity for providers like Northern Trust. How can we ensure that we are giving you accurate data? How are we helping you align your operating model globally in support of a change in product strategy?

If we look at the Australian market, there is a shift in terms of the lifecycle of superannuation funds, definitely for the initial contributors to superannuation schemes that are now hitting retirement. As such, products yielding income streams, versus long-term savings growth, are being enhanced to meet this demand.

Again, strong themes continue around investor needs and ensuring that product offerings are fit for purpose and that they have the right product for the right stage of an investor's lifestyle and market dynamics, particularly in the retirement phase of an investor's life cycle.



Clive Bellows



Ryan Burns



Caroline Higgins

CHAPTER TWO

NEW APPROACHES TO INCREASED DISTRIBUTION



Expanding distribution remains an ongoing journey for asset managers as they seek out new markets and products to retain existing clients and attract new ones. However, mere expansion is insufficient. Sufficient growth requires pursuing the right products, markets, assets and investors at the right time.

Miscalculations can lead to resource waste in a cost-sensitive environment. Effective distribution strategies are crucial and so is leveraging the right partners and technology to overcome distribution challenges, such as navigating the regulatory environment. When optimized and executed correctly, expansion into new markets and product launches can increase returns for many firms.

Investor requirements can vary significantly throughout their investment journeys. Early career investors need different products compared to those nearing retirement. A deep understanding of investor needs is required to deliver an optimized product strategy. Interestingly, 59% of respondents see insourcing investment management as a trend potentially impacting distribution strategy. Additionally, 55% identified a trend towards developing and expanding retirement products, highlighting a growing need.

What investor trends are you seeing that could impact your firm's distribution strategy?

Respondents were asked to select all answers that applied.

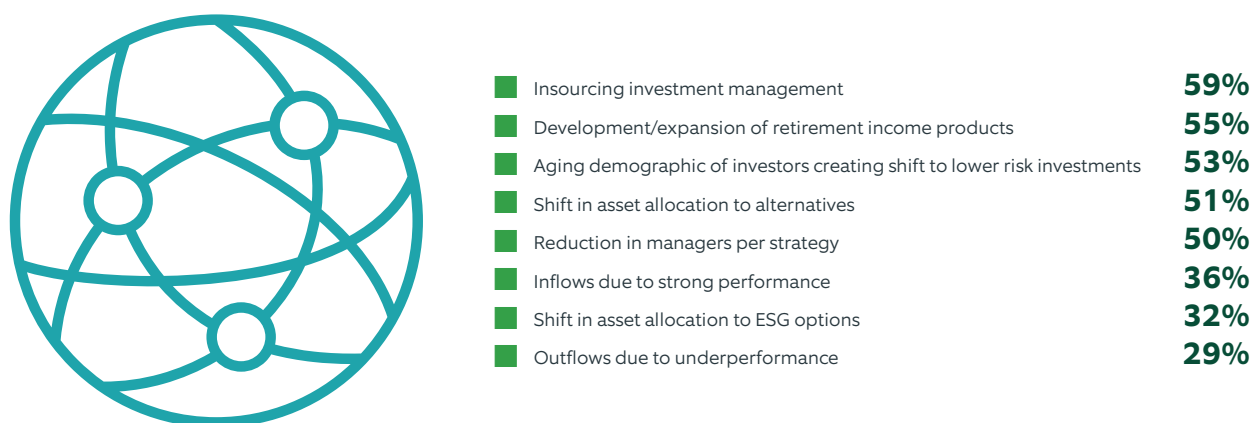


Fig. 8

Managers are feeling the effects from the insourcing of investment management from asset owners, where some investment strategies that are more commoditized are being brought in-house. Northern Trust has recognized that trend as well and we're focusing on services tailored to that client niche.

What that insourcing concern tells us is that firms need to expand their product mix to better differentiate and hit a wider range of investors or go more deeply with their existing investors. For example, the investment needs of someone starting their career and investing in a defined contribution plan versus someone nearing retirement are very different, and the products that asset managers offer need to reflect that. Managers will continue to expand their product sets to cover investors across their life cycle.

In the Australian market, with its aging demographic, there is a shift from long-term savings into a retirement phase, with lower risk and income generating investments. The high levels of insourcing of investment management, to take more control, ownership and product differentiation is highlighted.

Overall, asset owners must seek out best-of-breed managers to supplement the varied investment needs across the APAC region. Increasing investment in alternatives, including private capital, continues to be a trend, with high levels of alternative investment coming from Asia. While ESG in Asia remains a priority, fine tuning these products continues as managers consider the right balance of strategies, reporting, data sourcing and overarching regulation. It is a journey – finding the right balance and transparency.



Ryan Burns



Caroline Higgins

A focus on technology to overcome increased distribution challenges

A significant majority of respondents (76%) plan to invest in technology to focus their distribution channels. This includes advanced investment platforms that offer investors increased agility, flexibility, and efficiency. Additionally, new technologies are helping managers make informed decisions about where and when to expand distribution.

While untapped regions hold potential for new investors and higher returns, portfolio adjustments are necessary to cater to these new client needs. Data sourcing emerged as a major challenge when launching new products, with more than three quarters of respondents highlighting it, alongside changing market structures identified by over two-thirds.

The entire survey emphasizes the need for enhanced data management capabilities. Launching new products or entering new markets requires a constant stream of timely, relevant, and accurate data, especially in challenging markets.

Changing market structures like T+1 further complicate distribution efforts, making data sourcing even more crucial. Outsourcing, explored later, can be a key strategy to ensure sufficient data management capabilities during distribution expansion.

Dedicated outsourcing teams with global knowledge can assist firms by accelerating market entry and product launches through sound data analytics. Additionally, outsourced data providers can offer the technology, platforms, and systems necessary to strengthen distribution strategies and exceed client expectations.

If your firm is considering or planning to increase distribution, how will you achieve this?

Respondents were asked to select all answers that applied.

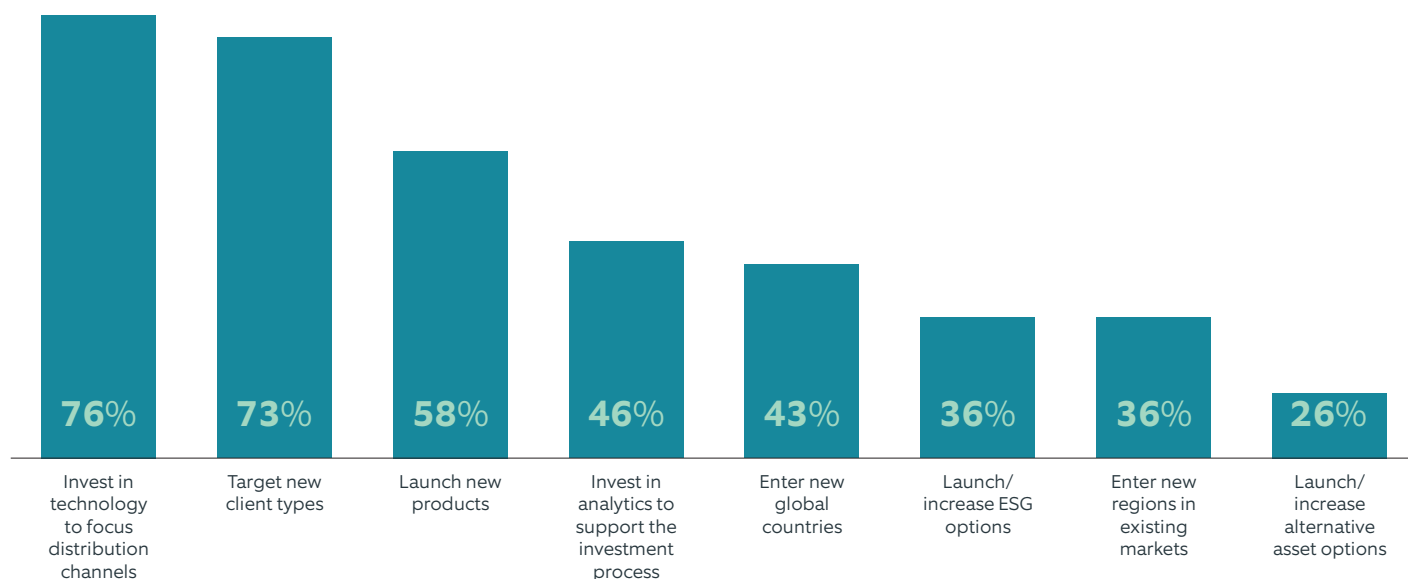


Fig. 9

I think we are seeing more focused strategies, with increasing focus on the use of data to inform distribution and identify where their particular areas of expertise will likely be most attractive to end-investors. In Europe, this includes focusing on new fund products such as the ELTIF and LTAF, which are of growing interest to both managers and investors.

Additionally, asset managers' plans to invest further in analytics to support their investment processes are a growing theme. We see this evidenced, for example, in their use of our data science solutions that allow them to digitize their investment processes, or combine trade data with behavioural science to identify decision patterns over time. Managers need to be able to digest their portfolio information, analyze the data on hand and decipher what it is telling them more quickly so they can double down on successful distribution strategies.



Clive Bellows

We are seeing that investment managers need to set the right portfolio mix for investors and they have to be able to flex and tweak as they align to the market and volatility. We are also seeing the deployment of technology that allows investors to invest through platforms rather than a direct sales approach to retail investors. Data analytics around investor trends, sales and investment options are required real-time versus quarterly to ensure that investor needs are understood, they have the right product fit, and are able to adjust product offerings appropriately.

Consistency and transparency in portfolio decision-making is key and this is how more data and decision-led technologies are being used.



Caroline Higgins

For those who chose *'launch/increase ESG options'*, what are the top three challenges concerning offering/ expanding ESG products?

Respondents were asked to select three answers that applied.

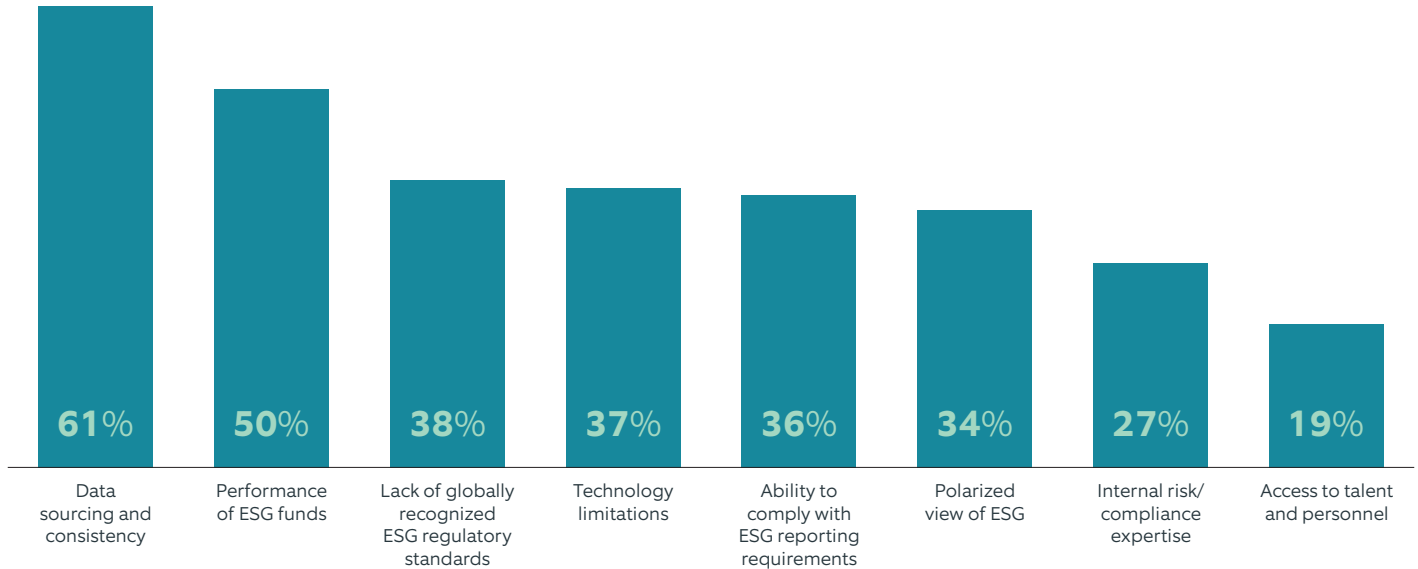


Fig. 10

It is clear that ESG is going to remain a focus and priority for certain investor types. Clients need to have the ability to demonstrate that they are meeting ESG commitments. Ensuring they are operationally scalable is also going to be a key area. This is where we see asset servicers playing a key role in the provision of the data that will facilitate reporting to both investors and regulators.



Clive Bellows

There has definitely been a shift over the last two years around ESG for many of the clients in the APAC region, and you can see less of a focus compared to the 2022 survey. ESG was at the top, and now it has moved into one of the lower scoring options.

Considerations around adaption of regulation and reporting to combat greenwashing and having that consistency of data sourcing is really one of the biggest challenges to overcome.



Caroline Higgins

In response to the changing interest rate environment, how has your approach to liquidity management changed?

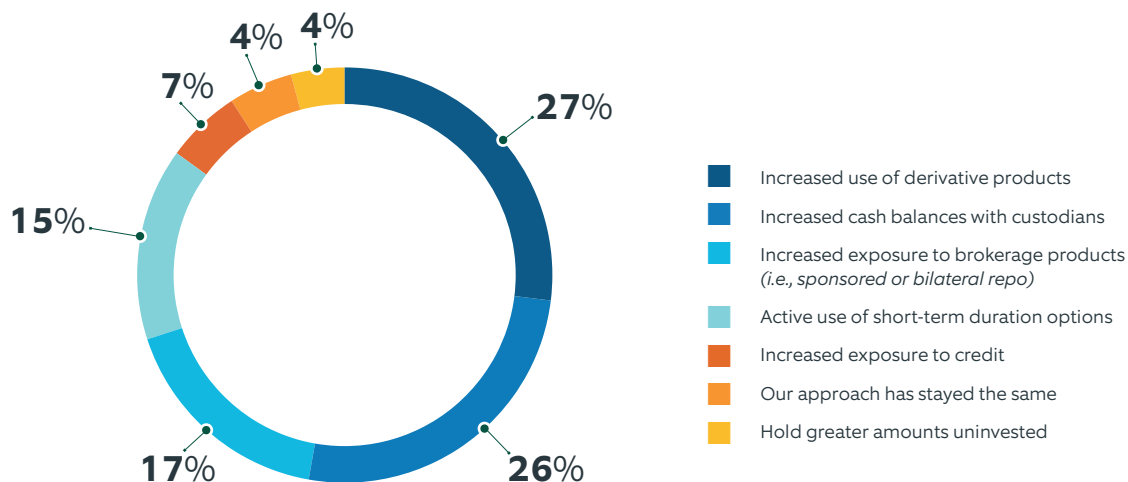


Fig. 11

The interest rate environment globally has been a challenge for a number of investors over the past few years, and managers have chosen some clear approaches to this challenge. One is increasing the cash that they are leaving on hand with their custodian, and the other is increasing the use of derivatives products. We see this in practice with our clients today as they are both positive ways to help navigate what is a fairly volatile rate environment.



Ryan Burns



Clive Bellows

We have seen our clients become far more active in managing their cash balances, whether that be negotiating interest rate spreads with their providers or looking to use other investment vehicles such as money market funds, repos and other short-term liquidity instruments.

What are the top challenges you might experience when launching new products?

Respondents were asked to select all answers that applied.

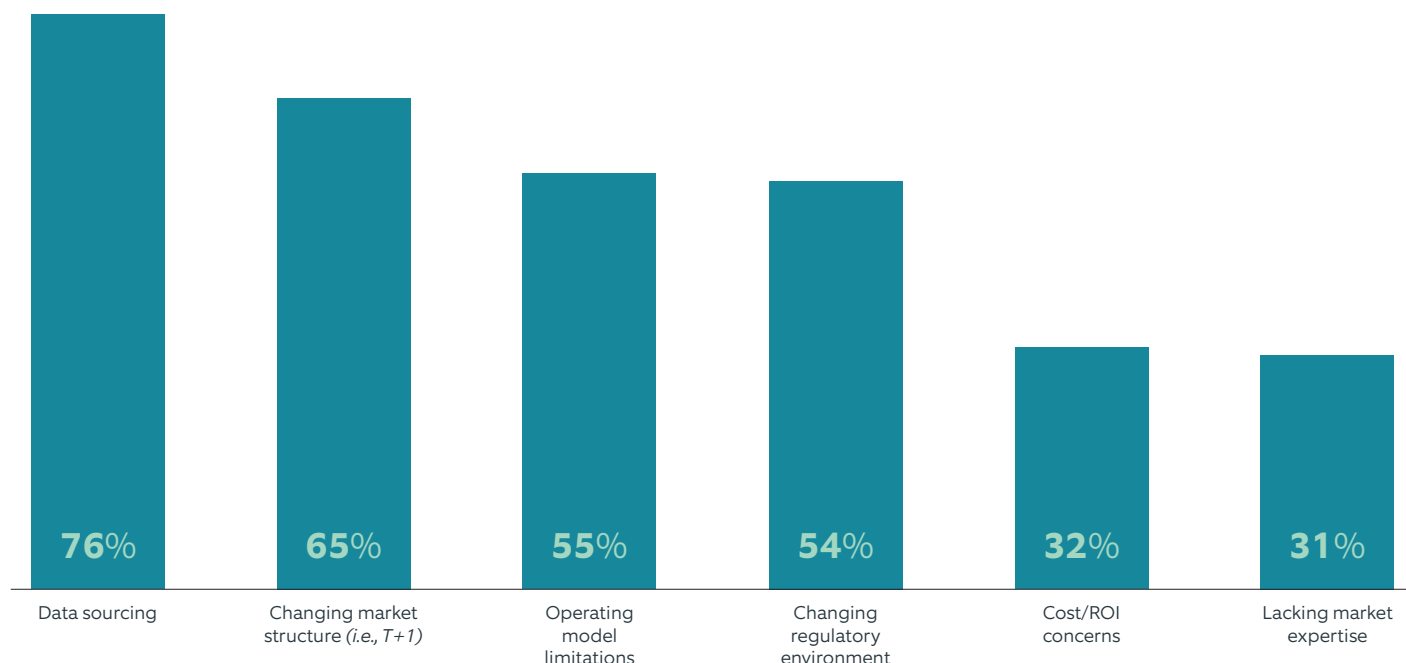


Fig. 12

Designing fund products that will adhere to regulatory requirements, particularly ones that are relatively new concepts, is becoming increasingly difficult as the regulatory environment continues to evolve. In this environment, having a flexible operating model is key to be able to launch and manage new fund products across multiple locations while also being able to evidence that regulatory requirements are being met.

Northern Trust focuses on providing clients with access to information that can help them when they make the decision to launch new products, in particular via the market intelligence we are able to gather across multiple domiciles in our role servicing their investors and their funds.



Clive Bellows

The need for data consistency and quality is clear, especially when used to launch a new product in a new jurisdiction, potentially with different operating and regulatory concerns.

We meet with our clients to understand what their data needs are, because they are different from one advisor to the next. And depending on how quickly or how often they're launching new products, they have to be able to access it efficiently. That's reflected here with more than 70% of the respondents noting that data sourcing is critical to launching products.



Ryan Burns

There has been a large spike in responses around data sourcing, and given the focus on challenges to achieve performance, this is no surprise. Every client communication includes discussion around data access and solutions. Being able to source the right data, and obtain the right pricing methodology, particularly if there are alternative assets, is critical in determining the overall performance of the funds.

The changing market structure, such as the impact of T+1 is going to be really important in particular from a time zone perspective. The APAC region is going to be the most heavily impacted in relation to this structural market change.



Caroline Higgins

For those who answered, *'changing regulatory environment'*, which of the following is a key concern for your organization?

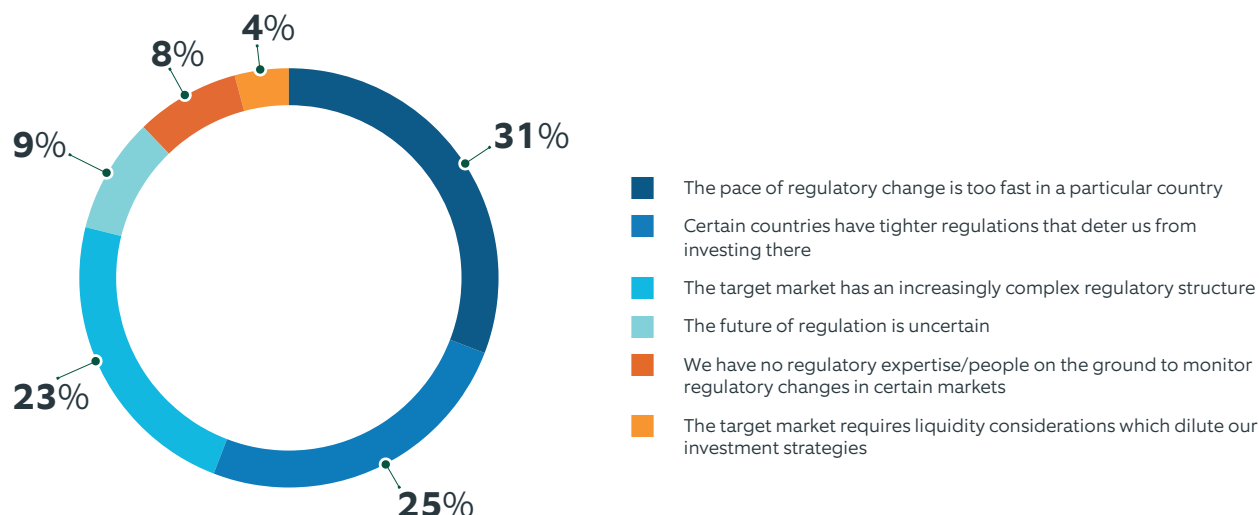


Fig. 13

It is clear that clients want to make sure that they are on the right side of regulators. The focus on regulatory compliance is only going to intensify in the coming years. Our clients are increasingly keen to make sure that they have understood the regulations and that their providers are able to provide them with solutions that enable them to sell their products in a compliant manner.

Many of our clients are launching fund products in more than one domicile. Of course, every region has its own nuances, so for our global clients it is important they can accommodate the diverse needs of their underlying investors or their intermediaries. This is where the role of the asset servicer can be helpful in helping managers develop an operating model with the technology, capacity and flexibility to efficiently support the requirements of investors and regulators across multiple locations.

The APAC region is very diverse, with differing regulations, approaches and maturity levels. For global or regional asset managers, it can be quite challenging to navigate the level of diversity from the different country-driven regulations and to align them to their overall corporate governance and framework. So, it is no surprise to see that the pace of regulatory change, particularly in APAC, continues to be a big challenge and that high levels of collaboration with their service provider is key.



Clive Bellows



Caroline Higgins

CHAPTER THREE

MAXIMIZING EFFICIENCY



Outsourcing as a scaling enabler and cost saver

Firms are increasingly turning to outsourced providers to help scale at a faster, more efficient rate. This was explored in previous surveys, and the trend continues in 2024. Partly influenced by cost, and partly by a lack of technology and expertise, firms are embracing outsourcing as a way to improve the quality of products offered to clients.

Outsourced providers offer access to cutting-edge technologies, platforms and data analytic capabilities that might not be readily available in-house. Recognizing the numerous advantages, asset managers are increasingly partnering with external experts to optimize operations and maximize efficiencies.

Cost reduction is a key driver, with more than a quarter of respondents intending to outsource non-core activities.

Furthermore, 74% acknowledge the increasing cost of maintaining in-house capabilities as a driver towards outsourcing. Delegating critical, non-core activities to specialists can create savings that may be unachievable through internal solutions. Some of these include securities finance, liquidity management, trading, foreign exchange and other capital market activities where outside providers can add efficiency to a manager's operating model.

Interestingly, data management is the primary area considered for outsourcing by 83% of respondents contemplating outsourcing in the next two years. This aligns with the ongoing concerns regarding data management and the increased focus on distribution and product strategy improvement. By leveraging the advanced data technology offered by outsourcers, such as data warehouses, firms can bypass the time and resource expenditure required for in-house data management advancements, enabling faster operational scaling.

How do you plan to control costs in the next two years?

Respondents were asked to select all answers that applied.

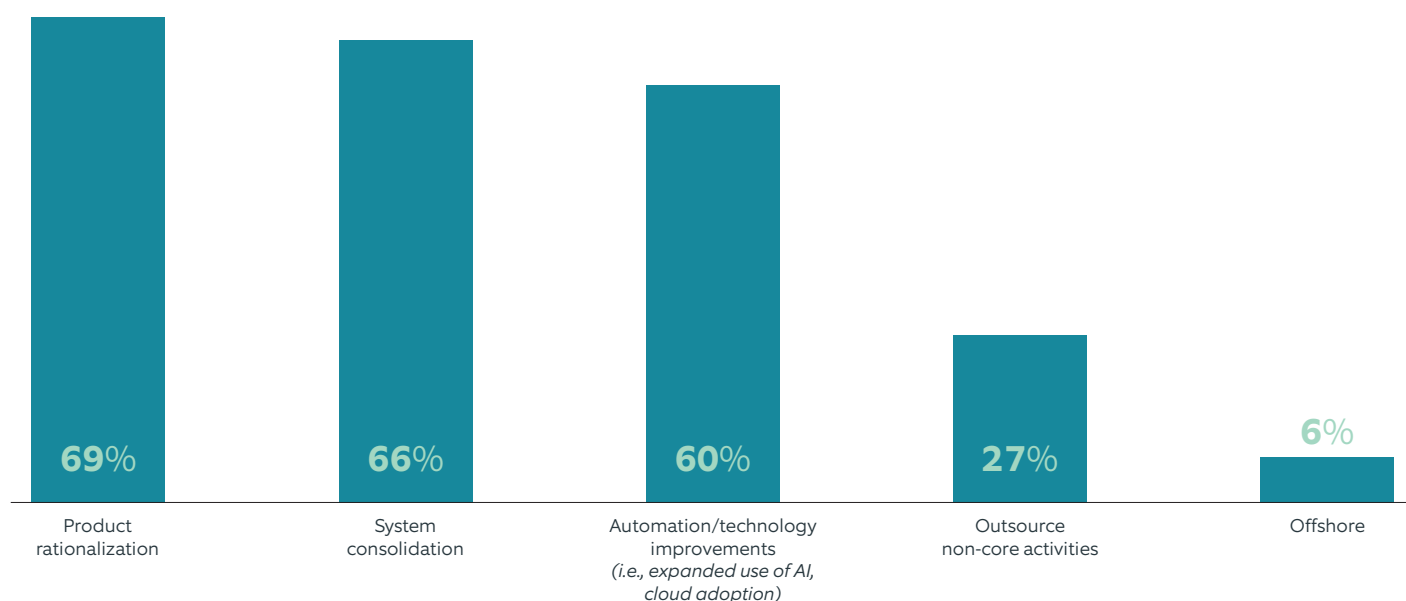


Fig. 14

Again, we see managers being focused on the 'right product, right fit' strategy. Coupled with system consolidation, both are effective tools to maximize a limited resource pool.

Managers want to have the systems in place to be able to effectively run a more diverse product mix, but also take a hard look at which strategies have not been successful and decide if that is dilutive to their ability to launch new products.

Having a consistent operating model is key to controlling costs but equally, product rationalization is a healthy exercise for asset managers to ensure they have the resources available to focus on distribution.



Ryan Burns

We are seeing a clear trend where managers are looking to utilize global operating models because that in turn enables them to more closely exercise cost control through economies of scale, and more efficiently manage servicing and technology costs.

Another key response to this question is the need for automation and technology improvements to help drive efficiencies. Artificial intelligence and other data tools are a key focus for Northern Trust as we not only look for ways to make our own processes more efficient, but also work with leading technology providers as part of our operating model to augment our capabilities and provide clients with access to solutions across the investment lifecycle.



Clive Bellows

Turning to outsourcing providers for their experience

A lack of internal expertise appears to be another significant factor influencing the decision to outsource. Sixty-six percent of respondents report experiencing technology limitations, while 60% face staffing challenges, pushing them towards outsourcing solutions. Additionally, changing market structures has led 66% of respondents to consider outsourcing.

By outsourcing operational areas like data management (known to incur high fixed costs for firms), asset managers can benefit from increased economies of scale, operational efficiencies, and access to expert knowledge in critical areas like regulation and capital markets activities. This trend towards partnering with external experts frees internal teams to focus on core product development and enhancing the investor experience.

If you are considering outsourcing in the next two years, what areas have you considered outsourcing?

Respondents were asked to select all answers that applied.



Fig. 15

The use of outsourcing providers in the back office space continues to grow and evolve, but as we have seen in prior surveys, outsourcing front office capabilities is also something that more and more firms are prepared to consider. This would include outsourced trade execution, cash and currency management.

Again, data management is a key concern for asset managers. Northern Trust is helping solve those challenges through our data warehouse product and through partnerships with Equity Data Science and Essentia to provide better analytical information for our clients to launch their new products, expand to new markets and support their existing investor base.

The focus on securities finance and liquidity is likely a response to the interest rate environment, and Northern Trust has developed products like our FICC repo offering to give asset managers alternatives that may help them navigate that path.

These responses depict the evolution of outsourcing and the key challenge that, again, many of the global asset managers have faced around data management. A key focus in terms of performance will be how to create higher levels of alpha or returns, and as such, clients look for products and services such as securities finance or capital market products that can increase those returns on their assets and ensure optimization of their liquidity.

In Asia we are also seeing that focus. Although Asia has been slower to outsource than other regions, the drive for alpha is aligned to other regions and is a key consideration.



Clive Bellows



Ryan Burns



Caroline Higgins

How have the following factors influenced your likelihood to outsource?

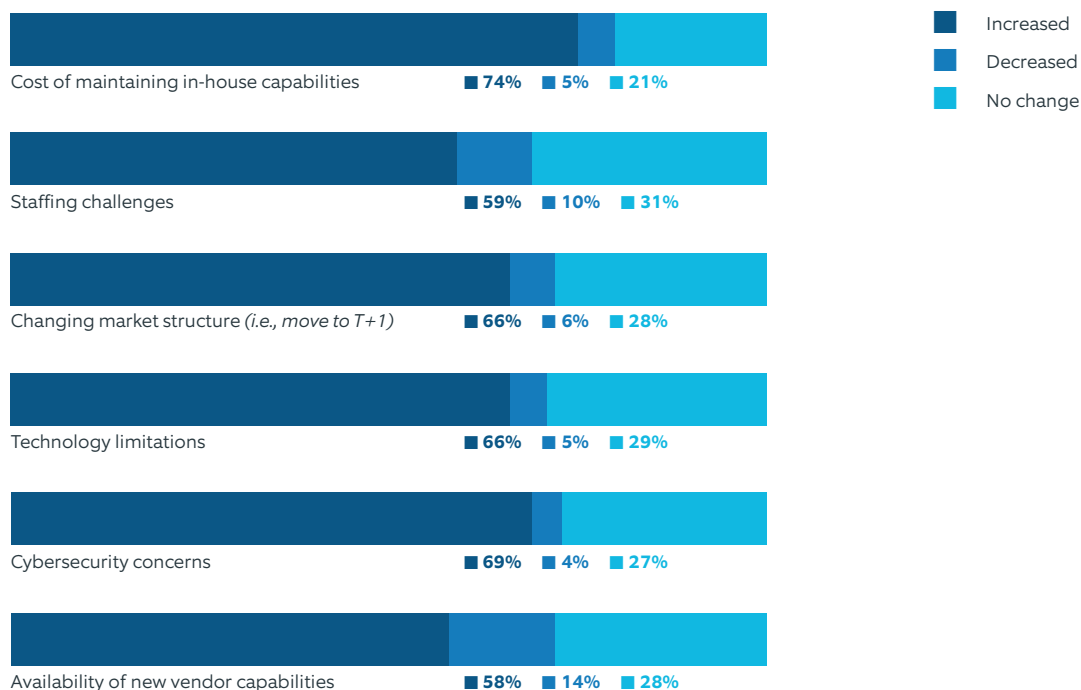


Fig. 16

Interestingly, most of the factors in this question have increased managers' likelihood of outsourcing, and very few have decreased it. So, it is telling that managers concerned about costs are looking at outsourcing as a solution.

Cost is always going to be a factor when someone is considering outsourcing, but increasingly, the need to demonstrate operational resiliency is causing some investment managers to review their operating models.

There is a consistent view across technology, cybersecurity and cost of systems. You have to demonstrate not only to regulators, but also to investors, that you have a strong control environment, that your data is safe and protected, and you are focused on ensuring that your existing systems are secure and stable.

Changing market structure is also very highly represented here. So the changes in the market structure with T+1 in North America and other changes that are coming to all regions is an opportunity for Northern Trust to help provide feedback, educate clients and work with them to support these changes.

Our clients are continuing to look for more specific data solutions that are integrated into and complementary to a holistic front-, middle- and back office solution.

In APAC, T+1 is going to have a major impact. Managers have been looking at their ability to facilitate this change and how they are going to manage their resources; complying with new trade deadlines, FX, and hedging are all key considerations. This, combined with the cost of maintaining in-house capabilities, are key factors that increase managers' likelihood to outsource more front- and middle-office solutions.



Clive Bellows



Ryan Burns



Caroline Higgins

CHAPTER FOUR

DATA MANAGEMENT



Sound data management capabilities are fundamental to delivering an improved investor experience. Asset managers require accurate and timely data, facilitated by the necessary tools and technologies, to make consistent, informed decisions.

As highlighted throughout this survey, data management remains a major challenge for respondents. With expansion into new markets and asset types, enhanced data management is crucial for buy-side firms to truly improve the investor experience.

Data sourcing and consistency emerged as the biggest challenge for 60% of respondents when launching and

growing their Environmental, Social and Governance (ESG) offerings, further emphasizing the widespread nature of data management concerns.

High-quality data translates to better service for clients. Without it, managers risk missing out on crucial insights and potential alpha.

Recognizing the value proposition, firms are increasingly turning to outsourcing data management. However, engaging with outsourced providers requires a clear understanding of data needs and business priorities.

Understanding data management challenges

Identifying the biggest data management hurdles is essential for understanding your data needs. The survey reveals a narrow gap between the top four challenges, separated by only 8%.

The most pressing challenge, as reported by 44% of respondents, is ensuring data is easily understandable and insightful. Following closely behind, 42% struggle to guarantee timely and accurate data availability for both internal and external stakeholders.

What are your biggest challenges in data management?

Respondents were asked to select two answers that applied.

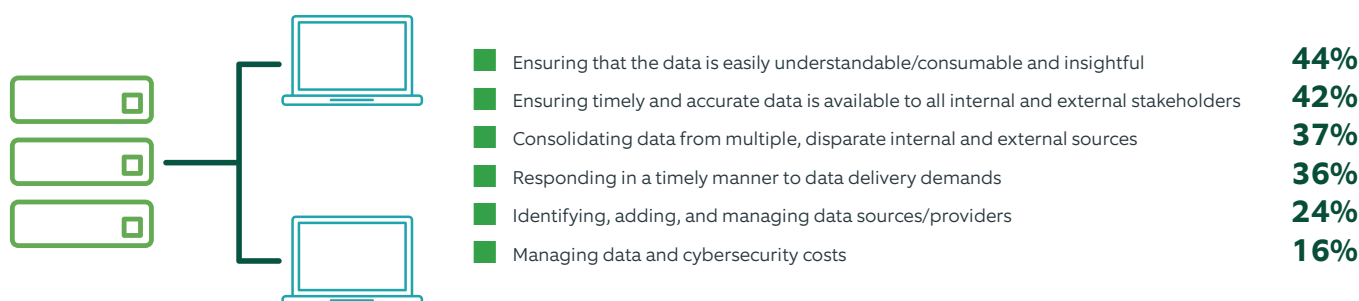


Fig. 17

It sounds very simple but timely and accurate information that enables that investor experience is really critical. Investment in data analytics through the use of products from providers like Northern Trust can help ensure that you are managing your strategies and making the right investment decisions. As you continue to expand product, making sure that the information and message you deliver to your investors is there and consistent and consumable is really important.



Ryan Burns



Caroline Higgins

Our clients are adopting the use of APIs and applications such as Snowflake. As we all take this digital and data journey, a key challenge for our clients is adopting new technology while managing solutions that are still heavily used in their organization. Data, performance, and the investor experience are linked, and, as such, data sits at the centre of the thought process. Finding the right approach for each of our clients will be a unique journey, with differing requirements, timelines and outcomes.

Outsourcing as a solution

It comes as little surprise that so many are considering outsourcing their data management operations. Specialty providers offer access to advanced data analytics and management tools (data science, data warehouses) through their investments in technologies like artificial intelligence, which gained mainstream adoption in 2023.

Leveraging the technology, resources, and expertise of outsourced providers empowers asset managers to access these advanced tools. This aligns perfectly with the reported plans of respondents: 57% intend to engage with specialized

data service providers, while 55% aim to utilize new technologies like artificial intelligence and machine learning to address data challenges within the next two years. Nearly 45% plan to engage a custodian for outsourced solutions, showing the importance of leveraging known partners in the data management journey.

Optimizing data management capabilities is critical in today's environment, where firms are prioritizing product quality, accuracy, and ultimately, the best possible investor experience. Outsourced providers can equip managers with the resources to leverage new technologies and deliver fresh insights when they are most needed.

How do you plan to address your data challenges in the next two years?

Respondents were asked to select three answers that applied.

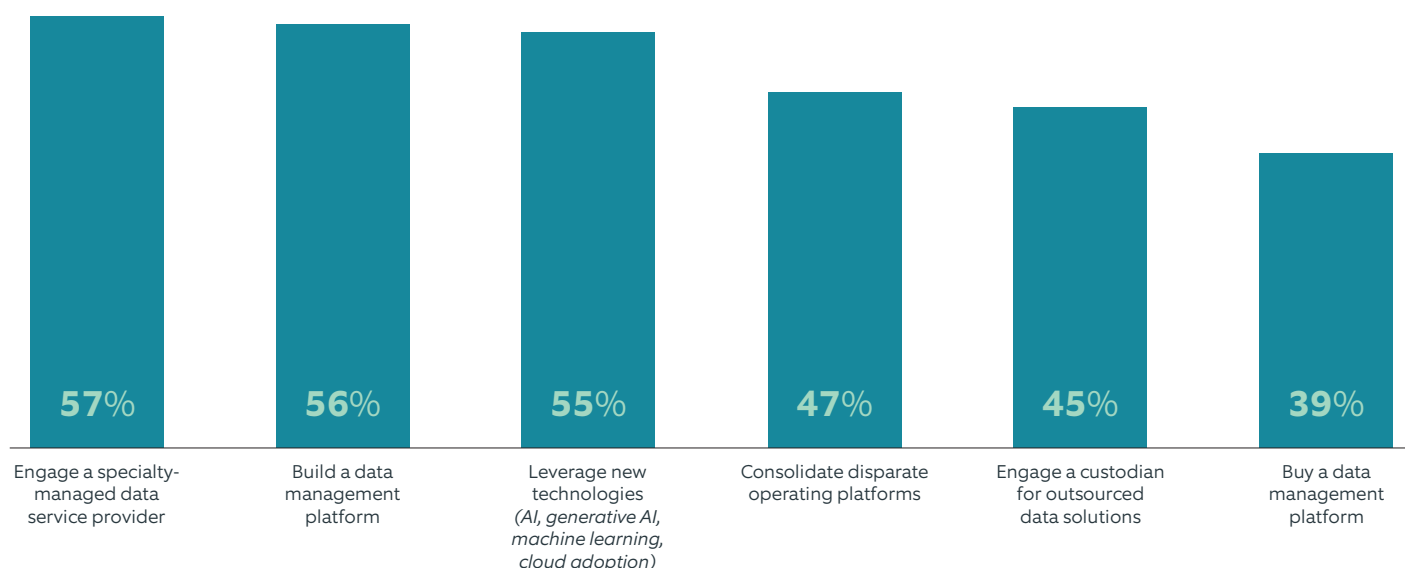


Fig. 18

We are finding in conversations with our clients that each firm is unique, and challenges are different for everyone. There is not a one-size-fits-all solution, but having a strong data management platform is critical, whether it's by doing that themselves or through a specialty outsourcing provider.

We are having these discussions with clients about how we can help support their data management. How can we provide consistent information for them? How can we enhance their analytics through partnerships with firms like EDS and Essentia? This is the crux of how they'll find success with their investors.



Ryan Burns

Different regions are seeing different approaches in relation to their data challenges. If you look at the APAC region, there is a difference in approach across the countries. Some may be leveraging cloud adoption, and there are other more mature markets that may be managing data platforms and warehouses.

The APAC region has differing responses, given the level of maturity of the market and adoption of technology. Overall the region is moving toward the adoption and use of data via API-driven solutions. Many of the less mature markets have an advantage to skip transformation and move straight to newer, agile models supported by new technologies.



Caroline Higgins

CHAPTER FIVE

SUPPORTING THE FRONT OFFICE



Maximizing alpha generation is the ultimate focus for the front office, and asset managers are responsible for providing the necessary support. Understanding the associated challenges will go a long way to helping. Our previous surveys identified sourcing and aggregating analytics as a key hurdle for supporting the front office. Sound investment decisions require accurate, real-time data. Asset managers must ensure

the timely delivery of the data needed by the front office to make informed choices. This has been a persistent challenge, often due to limited resources and technology. Without adequate support, the front office's ability to grow and stay competitive can be hampered.

Persistent challenges

Our research suggests minimal progress in sourcing and aggregating diverse investment analytics for the front office over the past two years. In 2022, 54% identified this as their biggest challenge and it has increased slightly to 55% in 2024.

Respondents do recognize the increased need to manage their cash positions, with more than half expressing this as

a challenge. Partly as a result of increased interest rates, the focus on cash is also indicative of managers wanting to ensure their investor experience is top-notch.

The survey results suggest an industry struggling to enhance its analytics capabilities, with the challenges intensifying over the past two years. This may be partly due to a changing regulatory environment, requiring support for new investment strategies with varying liquidity issues.

What are your biggest challenges in supporting your front office?

Respondents were asked to select two answers that applied.

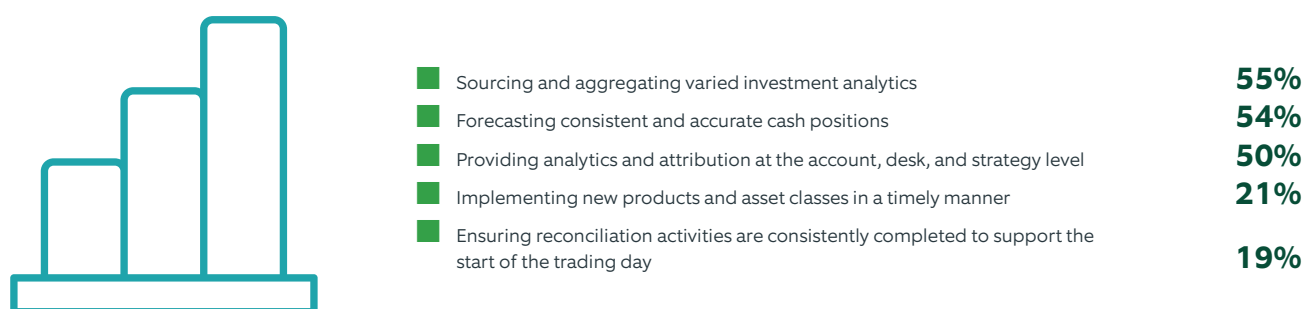


Fig. 19

It all comes back to data once again. Analytics and attribution are important for managers to do what they do well. Consistent and accurate cash forecasting seems very basic, but it is important as the regulatory environment has changed, and you are supporting new investment strategies that may have different liquidity challenges, as well as the interest rate environment itself.

These responses reflect how important the basics are around cash, coupled with a real investment around the analytics to make sure managers are servicing their investors well and providing them with the information that they need.

Front office needs have not changed -- asset managers still require timely and accurate data, particularly with ongoing market changes and as settlement cycles shorten. For example, with the move to T+1 in the US, the provision of that data will be a challenge. While the full impact of this change remains to be seen at time of writing, the role of the asset servicer in data provision will be critical in helping mitigate potential cash management and other challenges.

There are increasingly more options for clients to receive analytics that will enhance their ability around data. The use of data meshes and other similar types of products means that it is a lot easier for clients to pull data rather than have it pushed to them.



Ryan Burns



Clive Bellows

Addressing the challenges

Asset managers must have a clear strategy to overcome challenges around sourcing and aggregated analytics. Our research suggests the need for a different approach to 2022.

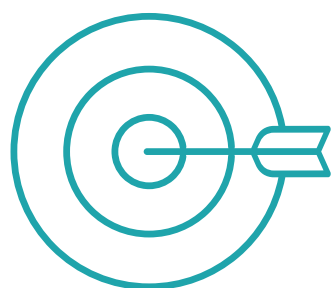
The results indicate a strong desire for enhanced data analytics capabilities, with 60% of respondents planning to leverage data tools to improve decision support and analytics

infrastructure. Additionally, there's a clear shift towards outsourcing expertise. Forty-eight percent plan to utilize a component outsourcing strategy, while 41% are considering middle-office outsourcing.

A holistic approach to sourcing a provider who can support the front, middle, and back office through outsourcing non-core activities appears to be the strategy firms are deploying to better empower the front office.

How will you address challenges in supporting the front office?

Respondents were asked to select all answers that applied.



■ Leverage data tools to improve decision support and analytics infrastructure	60%
■ Consolidate front-, middle- and back office platforms	50%
■ Employ a component outsourcing strategy that leverages multiple third-party providers to support post-trade processing requirements	48%
■ Outsource middle-office functions, including trade processing and IBOR, to a single third-party provider	41%
■ We do not have a specific strategy to address these challenges	16%

Fig. 20

As service providers, we have evolved to support the needs of the front office, which do differ from those of traditional back office support. We have responded by recruiting and employing people with front office experience. We are also using better data analytical and digital tools to meet front office needs.



Clive Bellows

Again, we see that data tools and analytics are key. This is consistent with what we are hearing from clients.

There is also a desire to outsource functions that may not be core to the business of delivering alpha. Managers have to service the whole office and that may entail component outsourcing or leveraging internal capabilities where needed. The focus should be on the data tools that can best help managers expand their investment strategies.



Ryan Burns

The results highlight the need for holistic solutions that provide asset managers with optionality across the range from back-, middle- and front-office. Transparency, data and ensuring our people understand our clients' challenges is crucial.



Caroline Higgins

Conclusion

While the past two years have offered more stability compared with the turbulence of 2020-2022, challenges remain for the asset management industry. Rising costs, high inflation and geopolitical instability necessitate continued innovation and strategic agility.

This survey uncovers interesting priorities for asset managers. While cost control has dominated our previous surveys, the focus has shifted towards enhancing quality and accuracy, particularly to deliver a superior investor experience.

Consequently, managers are doubling down on successful strategies while reviewing their product offerings. A deeper understanding of client needs is crucial, necessitating a highly targeted product mix. Cost concerns have not disappeared entirely. Firms are embracing technology advancements and outsourcing to combat them. In recent years, we witnessed a surge in mainstream adoption of artificial intelligence (AI) solutions. While many already utilized AI to some extent, the

exponential growth in AI tools, particularly Generative AI, presents new avenues for cost savings and efficiency gains.

The survey highlights a growing preference for outsourcing to address various challenges. Data management capabilities, critical for delivering a best-in-class investor experience, are the primary areas targeted for outsourcing.

Firms seek to leverage the additional resources, technology, and expertise of outsourced providers to enhance data management tools and platforms. This optimization of investment strategies allows for increased distribution and data-driven entry into new markets and asset types. Respondents acknowledge their own limitations in expertise and resources, and view partnerships with outsourced providers for non-core activities as a way to better support the front office and deliver the quality and accuracy needed for an improved investor experience.



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