

# Investors want balance and asset managers are listening

Shifting investor interests are driving new product strategies



It's a time of rebalancing and reassurances for Canada's asset management investors. And as insights from KPMG's 2021 Asset Management Opportunities & Risks survey reveal, these attitudes are driving several product trends in 2022.

Several key takeaways emerged from our most recent industry-wide survey. Among the most telling is that Canada's asset management leaders see launching new products and services as their most significant opportunity in the days ahead. This is unsurprising, given the industry's natural and ongoing push to stay competitive by offering unique market opportunities (e.g., investments, cryptocurrencies, tax-advantaged fund structures, etc.). It is also a response to a challenging pandemic market, wherein investors are reallocating to products that claim to offer reliable — albeit lower — results at a time in the market cycle where products (e.g., passive equity indexes) aren't likely to continue providing double-digit returns.

**73% of asset managers launching new products are focused on new fund strategies.**

## A play for alternatives

Pandemic market conditions have triggered a balancing of asset allocations across the board, and investors want options. This is turning the spotlight on alternatives, which 90 per cent of survey respondents view as the highest in-demand products among their clients. Topping their list of the most in-demand products are private debt/credit (82 per cent), followed by hedge funds, private equity, real estate, and infrastructure (55 per cent each).

Preferences for alternatives are natural at this point in the market cycle. Amid market volatility and

pandemic uncertainties, investors are gravitating to products that offer less volatile results, even if that means lower returns. As such, options like private credit, infrastructure, and hedge funds are seeing an uptick in popularity as investors seek a more consistent return or yield.

Even still, private equity can be a tricky proposition from a retail perspective, given the liquidity mismatch. Liquid alternatives, on the other hand, are picking up traction thanks to Canada's relatively new liquid alternative regime, which has opened hedge fund strategies to retail investors. And while we've yet to see an explosion in the liquid alternatives market within our borders, their growth has been steady.

Moving forward, these products are well positioned to get retail allocation, as more investors leave their equity allocations for more market neutral, absolute returns, but with the lower investment.

## Over one-third (36%) of asset managers plan to enhance financial yields through investing in new asset strategies.

All told, the alternative investment class has proven its ability to manage risk and volatility, while still producing above-market risk-adjusted returns for investors. With market volatility expected to remain in the near and medium-terms, appetites for these products and increased allocations to this asset class will continue to drive demand. The challenge for investment managers is sourcing and securing the people and resources required to develop and manage this product class.

### ESG in the spotlight

Interests in Environmental, Social and Governance (ESG) products continue to mount. At last count, there are more than 3,400 open-end funds and exchange-traded funds globally that consider ESG factors in the way they invest. Moreover, it's predicted that the proportion of global assets under management, being viewed through a sustainability lens, will climb from 25 per cent to 75 per cent<sup>1</sup>.

This is no overnight popularity. For years, institutional investors have been pressured to allocate more of their portfolio to companies that are making concerted and verifiable efforts to achieve net-zero emissions. This is likely to continue, as the next generation of investors prioritize sustainability and carbon-reducing activities, and as asset management stakeholders align on the ESG reporting frameworks and scorecards that will ease their adoption.

In short: Investors are looking for asset managers that can accommodate these ESG allocations. Those that can't risk losing them as a client or, at the very least, losing out on that part of their clients' allocations.

The ESG focus is also turning inwards. An increasing number of investors are aligning with asset management firms that demonstrate their own commitment to ESG, be it through ESG committees, sustainable resource use, and genuine efforts to reduce or offset their carbon footprints.

## 81% of asset managers offer ESG investing, and 27% offer both ESG investing and ESG impact strategies.

### Don't discount crypto

Cryptocurrencies ranked as the least in-demand product in our 2021 asset management survey (9 per cent). This is understandable, given this space is still perceived as being plagued by fraud, rampant speculation, and market volatility.

Nevertheless, crypto is an asset class that isn't going away. If anything, appetites for cryptocurrency products will pick up as new products enter the market and as more organizations assume custodianship over the emerging options (e.g., Bitcoin). As this custody matter gets resolved in Canada, expect more mass investor appeal and the proliferation of crypto products.

“Customization for the masses’ will be a key product growth driver over the next five years. Alpha is becoming more difficult to attain, making personalized products an appealing alternative to low-cost beta investing and one that can improve client experience and overall client centricity.

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<sup>1</sup> <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/09/2020-kpmg-aima-global-hedge-fund-survey.pdf>

## One market, many factors

A snapshot of Canada's asset management product space reveals two complimentary themes. One is the continued movement of money to private markets and alternative asset classes, while another is a widespread asset reallocation at a volatile point in the market cycle, which is owed in no small part

to the pandemic. No one can say definitively when market conditions will stabilize, but as always, KPMG's survey shows an industry keen to adapt.

Maneuvering today's market requires investor insights and a pulse on product trends. KPMG's Asset Management group is ready to help organizations plan ahead with confidence.

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