Institutional Investor

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The Institutional Share of Global Capital is Shrinking. What Does This Mean for Managers?

In 2021, institutional assets accounted for 31 percent of all global assets under management. According to Indefi, that figure could drop to 26 percent by 2030.

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Dhiraj Singh/Bloomberg

Institutional investors are slowly losing their grip on global assets under management — a trend that is likely to persist over the next decade.

In 2021, institutional assets accounted for 31 percent of all global assets under management. According to a new report from strategic consulting firm Indefi, that figure could drop to 26 percent by 2030. Meanwhile, retail investors are expected to account for over 61 percent of global AUM by 2030, up from 52 percent in 2021. And the trend isn't limited to AUM. In 2000, legacy institutions — pensions, endowments, foundations, and sovereign wealth funds — accounted for over 40 percent of the revenue generated by fees in the U.S. Last year, that figure dropped to 25 percent.

Indefi attributes this shift from the institutional to the individual investor to a combination of policy and demographics. Emerging markets are "overwhelmingly dominated by retail investors," the report said, which means that there are fewer institutional client pools in countries other than those with the largest institutional markets, such as the U.S., U.K, and Canada.

"If I'm an asset manager, it means I can no longer afford to ignore the retail or the individual investor," Daniel Celeghin, managing partner at Indefi, told *Institutional Investor*. "If I want to stick to serving these large institutions, I'm going to be [serving] a smaller and smaller pool of business, which will be increasingly more competitive."

In markets with a larger share of institutional capital, a shift away from the defined-benefit plan has also been seen. When the economies with the largest pools of institutional capital first started their pension plans, Celeghin said, they adopted a defined-benefit model, which gave professional managers access to large pools of capital. Over the years, however, policy changes steered most countries away from defined benefit plans and toward defined contribution plans and 401ks. As a result, individuals became responsible for their own retirement savings, and the existing pools of institutional capital in the pensions began to dry up, with older assets slowly being paid out.

For this reason, Celeghin said, the number of asset managers that rely solely on institutional clients is likely to decrease over the coming decade. The survivors will consolidate and the industry will see fewer managers and bigger players, although that doesn't mean that institutional asset managers will be disappearing any time soon. "As long as the markets, in general, go up, the total number of dollars isn't going to shrink," he said. "[The institutional side is] just not really growing, whereas the retail business dollars are growing."

Celeghin also said that the shift from institutional to retail means that retail investors will wield newfound influence in the investment world. The report described traditional institutional influence — that is, the ability of institutions to use their predominance in the space to set standards — as a pyramid, with the institutions at the top trickling their influence and practices down to retail. In this changing environment, the report said, the pyramid has begun to invert. Retail investors now set the tone, introducing trends such as exchange traded funds and digital assets, while institutions follow their lead. "Institutions are copying what retail does," Celeghin said. "It used to be the other way [around]."

Asset managers have traditionally relied on a set of truisms — including the globalization of the industry, institutional leadership and influence, and a focus on returns — but Indefi expects these "truths" to change. For example, Indefi says that the loosening of the institutional grip has begun to drive another trend: the de-globalization of the asset management industry. According to Celeghin, this began in 2008, when regulators from various places around the world took very different cues from the global financial crisis.

"How regulators responded and what they learned varied [a lot] by region and even by country," he said. "[Regulators and policymakers] post-2008 basically said 'one-size-fits-all doesn't work.'" He added that managers can no longer apply the same investment strategies across the portfolios of global clients, which makes it difficult for asset managers to scale.

The report expects 85 percent of global assets to be managed by local vehicles by 2030. That's up from 74 percent in 2021. The concurrent rise in private asset classes, nontraditional cash flows, and digital assets means that managers will need to quickly learn to navigate a new environment and to adapt to new investing tools, new risks, and the increasing role of technology in the industry.

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Traditional Asset Managers Enjoyed a Solid 2021 — But Alternative Firms Outperformed by a Wide Margin

Firms with an emphasis on alternative strategies saw a median revenue growth rate of 47 percent in 2021, 29 percentage points higher than traditional firms.

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Angus Mordant/Bloomberg

While revenue for publicly traded asset managers in the U.S. and Canada saw another record year of growth in 2021, alternative managers stole the show.

According to an analysis of 17 publicly traded asset managers — each with over $100 billion in assets under management — by global asset management strategy consultant Casey Quirk, the aggregate revenue growth rate in 2021 was 43 percent. The total revenue for the 17 surveyed managers, which included 11 traditional and six alternative firms, reached $84 billion last year, up from about $59 billion in 2020.

Casey Quirk attributes much of the revenue growth to double-digit equity market appreciation in the U.S. and other developed markets. Amanda Walters, a principal at Casey Quirk, said that revenue growth is typically driven by AUM growth — which includes market appreciation and net new flows — and any changes in fees or implied fees. “A couple of things happened this past year,” Walters told *Institutional Investor*. “One was that we just had really strong equity markets. Two was that we had relatively stable organic growth or net new flows into the industry.”

Overall, total AUM of the observed managers grew 15 percent in 2021, reaching around $20 trillion, while net new flows into traditional firms hovered at a stable 1.2 percent and median fee capture grew by 7 percent. While all publicly traded managers experienced

revenue growth last year, alternative managers — those with a focus on the private markets — enjoyed a stellar median revenue growth rate of 47 percent. Meanwhile, traditional managers, who have greater exposure to publicly-traded stocks and bonds, saw median revenue growth of 18 percent.

"This is a persistent trend we've seen over the past few quarters," Walters said. "The biggest driver is that there's increased client demand for yield. As a result, we've seen flows going into private market strategies at a faster rate than public market strategies." Walters also noted that the fees that private market managers charge for their services are often much higher than those at traditional firms, which further contributed to the revenue growth enjoyed by alternative firms in 2021.

Walters added that when revenue increases, expenses typically go up as well. This was the case in 2021, with expense growth at the observed firms increasing by 15 percent, driven largely by compensation growth. "In a time when the war for talent is certainly on in asset management, we saw a lot of firms paying out their people pretty well, and we've seen new hiring happen, which leads to that overall compensation growth as well," Walters said.

In a statement, Scott Gockowski, a senior manager at Casey Quirk, said that traditional firms have begun to take steps to remedy the growth discrepancy. "The gap in financial performance between traditional and alternatives firms continues to support robust M&A activity," he said, "with traditional firms seeking to acquire alts capabilities."

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