New Routes to Growth

Featuring Results of the State Street Growth Readiness Study
State Street engaged Longitude Research to field a global survey of more than 500 industry executives from 20 countries, in both 2017 and 2018.

Respondents span investment, operations and distribution roles, representing institutional asset owners, asset managers and insurance companies.

2018 Sample

Respondents by Geography
- Americas: 37%
- EMEA: 40%
- APAC: 23%

Respondents by Sector
- Asset Managers: 41%
- Pension Funds: 19%
- Other Asset Owners: 14%
- Insurance Companies: 13%
- Official Institutions: 12%

Respondents by Function
- Investment Management: 39%
- Operations/Technology: 35%
- Sales/Distribution*: 13%
- Executive Oversight of Multiple Functions: 12%

*For the asset management and insurance sectors only.

Pressures on Growth Remain Intense

Continuing the trend from 2017, our 2018 results show that investment institutions are acutely concerned about their ability to achieve their growth objectives. The majority of industry participants are positioning themselves more defensively amid market uncertainty.

68% say it’s becoming harder to achieve growth, versus 66% who said the same one year ago

Source: State Street Growth Readiness Study, 2018
Today’s Growth Environment: Push and Pull Factors

Emerging technology is perceived as more of an opportunity than a threat, while the political outlook is viewed as a net drag on growth.

Q. Of the following factors, which provide the greatest opportunity for your organization’s growth over the next five years and which pose the greatest threat over the next five years? Respondents were allowed to select up to three factors for each.

Emerging technologies
Economic growth outlook in our key market(s)
Monetary policy in our key market(s)
Equity outlook in our key market(s)
Fixed income outlook in our key market(s)
Political outlook in our key market(s)
Regulation governing liquidity risk
Regulation governing investment behavior
Regulatory attention to investment fees
Other

Source: State Street Growth Readiness Study, 2018
Emerging Tech Now More Critical to Capture Growth

In 2017, just 18 percent of industry respondents believed emerging technology was a major factor in creating growth opportunities for their organization. Now we’re seeing a dramatic shift in mindset, with 48 percent citing it as a top growth enabler.

Percentage citing factors as greatest opportunity for growth over the next five years

Q. Of the following factors, which provide the greatest opportunity for your organization’s growth over the next five years? Respondents were allowed to select up to three factors.

Source: State Street Growth Readiness Study, 2017 and 2018
Regulation Seen as Bigger Threat to Growth

Regulation governing investment behavior and liquidity risk are cited as top threats to growth objectives. Digital disruption is also a greater concern, as emerging technology can be a double-edged sword, introducing risk as well as opportunity.

### Greatest threat to growth over the next five years

<table>
<thead>
<tr>
<th>Factor</th>
<th>2017</th>
<th>2018</th>
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</thead>
<tbody>
<tr>
<td>Regulation governing investment behavior</td>
<td>37%</td>
<td>43%</td>
</tr>
<tr>
<td>Regulation governing liquidity risk</td>
<td>39%</td>
<td>42%</td>
</tr>
<tr>
<td>Political outlook in our key market(s)</td>
<td>36%</td>
<td>40%</td>
</tr>
<tr>
<td>Economic growth outlook in our key market(s)</td>
<td>33%</td>
<td>37%</td>
</tr>
<tr>
<td>Monetary policy in our key market(s)</td>
<td>26%</td>
<td>35%</td>
</tr>
<tr>
<td>Regulatory attention to investment fees</td>
<td>38%</td>
<td>34%</td>
</tr>
<tr>
<td>Fixed income outlook in our key market(s)</td>
<td>17%</td>
<td>32%</td>
</tr>
<tr>
<td>Equity outlook in our key market(s)</td>
<td>27%</td>
<td>29%</td>
</tr>
<tr>
<td>Emerging technologies (e.g., blockchain, artificial intelligence etc.)</td>
<td>14%</td>
<td>27%</td>
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</tbody>
</table>

### Top three threats, by institution type

<table>
<thead>
<tr>
<th>Category</th>
<th>Asset Managers</th>
<th>Insurance</th>
<th>Asset Owners</th>
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<tbody>
<tr>
<td>Regulation governing investment behavior (41%)</td>
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<tr>
<td>Regulation governing liquidity risk (46%)</td>
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<tr>
<td>Regulation governing liquidity risk (45%)</td>
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</table>

Compared to 2017, the fixed income outlook and emerging technologies are more likely to be viewed as threats to growth over the next five years.

Q. Of the following factors, which pose the greatest threat to your organization’s growth over the next five years? Respondents were allowed to select up to three factors.

Source: State Street Growth Readiness Study, 2017 and 2018
More Progress Is Needed to Close the Gaps

While institutions have generally improved effectiveness across their operations since our 2017 study, the ability to manage technology risks and extract better insights from data stand out as additional areas for improvement today.

Q. How important do you think these internal capabilities will be in enabling your organization to meet its growth targets over the next five years, and how would you rate your organization’s current level of capability/effectiveness in each of these areas? Summary of Top 3 Box

Source: State Street Growth Readiness Study, 2018
Integrating New Technology Is an Ongoing Struggle

Mastering the integration of new technology will prove decisive in the battle for growth. Asset owners face more significant challenges in this area, citing lack of funds to devote to digital innovation.

**Biggest challenges taking emerging technologies from the development phase to rolling out implementation across the business, rank 1 and 2**

1. Integrating new technologies with our existing infrastructure & processes - 49%
2. Insufficient budget/capital to spend on this - 38%
3. Emerging technology R&D is often not targeted at a specific business use case - 37%
4. Reluctance of business teams to change how they work - 36%
5. Lack of expertise to manage the roll-out process across the organization - 33%
6. Insufficient budget / capital to spend on this - 33%
7. Reluctance of business teams to change how they work - 31%
8. Integrating new technologies with our existing infrastructure and processes - 30%

**Top two challenges, by institution type**

- **Asset managers**
  1. Integrating new technologies with our existing infrastructure and processes - 54%
  2. Lack of expertise to manage the roll-out process across the organization - 39%

- **Insurance**
  1. Integrating new technologies with our existing infrastructure and processes - 58%
  2. Emerging technology R&D is often not targeted at a specific business use case - 36%

- **Asset owners**
  1. Insufficient budget / capital to spend on this - 46%
  2. Reluctance of business teams to change how they work - 41%

Q. What are the biggest challenges for your organization in taking emerging technologies (e.g. cloud infrastructure, distributed ledger technology, cognitive computing) from the development phase to rolling out a live implementation across the business?

Source: State Street Growth Readiness Study, 2018
Charting the Route to Growth

Our earlier research identified three emerging pillars of growth across the industry. Our new findings show the differences by sector in the areas most critical to achieve growth targets.

- **Compete at scale**
- **Align technology with ambition**
- **Cultivate asset intelligence**

### Most important factor cited for organizations to achieve growth targets, 2018

- **Better alignment of technology with our growth ambitions**
  - Asset Manager: 31%
  - Insurance: 47%
  - Asset Owners: 34%

- **More efficient scaling of our operating model to support growth**
  - Asset Manager: 39%
  - Insurance: 24%
  - Asset Owners: 30%

- **Cultivating new talent to support high-growth initiatives**
  - Asset Manager: 30%
  - Insurance: 29%
  - Asset Owners: 36%

Source: State Street Growth Readiness Study, 2018
The Changing Industry Mindset

While industry attitudes toward innovation are changing for the better, the majority are still taking an incremental approach. Emerging technology offers new paths to growth, but stringing legacy systems together will keep institutions in the slow lane.

- **61 percent** of respondents are taking an incremental approach to emerging technologies, vs. re-engineering their IT ecosystem
- Given the costs of an architectural overhaul, many firms are selectively seeking tech partners as a way to gain scale
- Industry leaders’ tech investment goals are focused on protecting enterprise data and generating an alpha advantage

Source: State Street Growth Readiness Study, 2017 and 2018
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