Upping the Innovation Game in the Asset Management Industry

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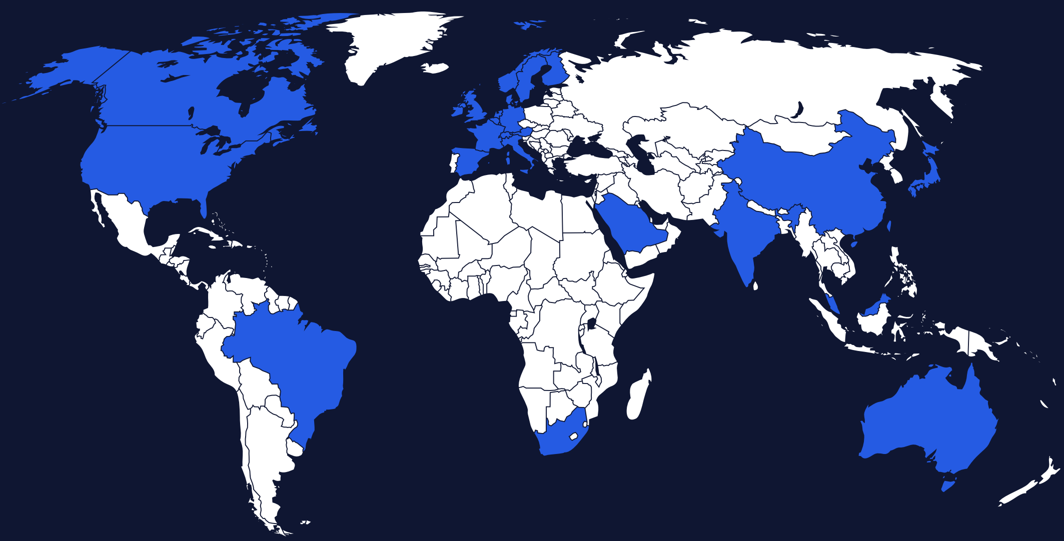
As with previous reports prepared by Citi/CREATE-Research, our research has relied on a global survey bolstered by structured interviews. This report represents the views of the participating organizations.

A sample of 221 asset managers in public and private markets from 26 countries took part in the survey, with total assets under management (AuM) of $34.8 trillion.

The survey was followed by 40 interviews with senior executives from a cross-section of survey respondents.

All the data presented in the report and their analysis emanate from either the survey or the interviews, unless stated otherwise.

Survey participants by geography and size of AUM



Australia	Denmark	Italy	Saudi Arabia	Sweden
Austria	Finland	Japan	Singapore	Switzerland
Belgium	France	Luxembourg	South Africa	United Kingdom
Brazil	Germany	Malaysia	Spain	USA
Canada	India	Netherlands		
China	Ireland	Norway		

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Foreword

In an era of rapid technological disruption and accelerating market shifts, the imperative for asset managers to innovate, adapt, and redefine their value propositions has never been stronger. At Citi, we are committed to driving this forward-thinking dialogue and provide insights that empower our clients to thrive as AI and digital assets reshape investor behaviour and expectations.

Citi is delighted to support CREATE-Research on this compelling new study exploring the strategic priorities, challenges and emerging opportunities that asset managers are navigating today.

It acknowledges that the accelerating pace of change demands more than just competitive fees; it requires asset managers to innovate; not just within their firms but also through strategic partnerships to enhance client outcomes. We recognize that the future is an infrastructure play and leveraging cutting-edge AI platforms, data platforms, and robust data capabilities will be paramount.

Speed, always-on, real-time capabilities, and frictionless operations across all infrastructure layers will define superior client experience. This report explores innovations that delivers this value, identifies challenges, and examines structural drivers shaping future efforts. It highlights the increasingly strategic role of fund administrators as essential partners in addressing fragmented delivery models where vulnerabilities in cyber, resilience, data, and analytics can create unnecessary drag.

We extend our sincere gratitude to Professor Amin Rajan and the CREATE-Research team for their exceptional work in producing this insightful analysis. Their meticulous survey provides a robust foundation, offering a clear blueprint for future conversations on the strategic direction of asset management in a truly integrated, digital-first future.

Chris Cox
Global Head of Investor Services
Citi

Acknowledgements

"In the middle of difficulty lies opportunity."

Albert Einstein

Asset managers have faced twin challenges in the current decade: rising geopolitical risks that whipsaw investment portfolios indiscriminately and the continuing rise of hyperscalers that attract the bulk of net fund inflows.

Together, they have provided fresh impetus behind innovation efforts that began gaining prominence in the wake of the 2008 global financial crisis.

This survey provides an assessment of their impacts. It provides a timely perspective on what has worked, what hasn't and why, as asset managers seek to remain relevant in a changing landscape.

My foremost thanks go to the 221 asset managers who participated in this collaborative annual survey. Their practical insights have served to shed light on how asset managers are seeking to establish a clear line of sight between innovation and client needs.

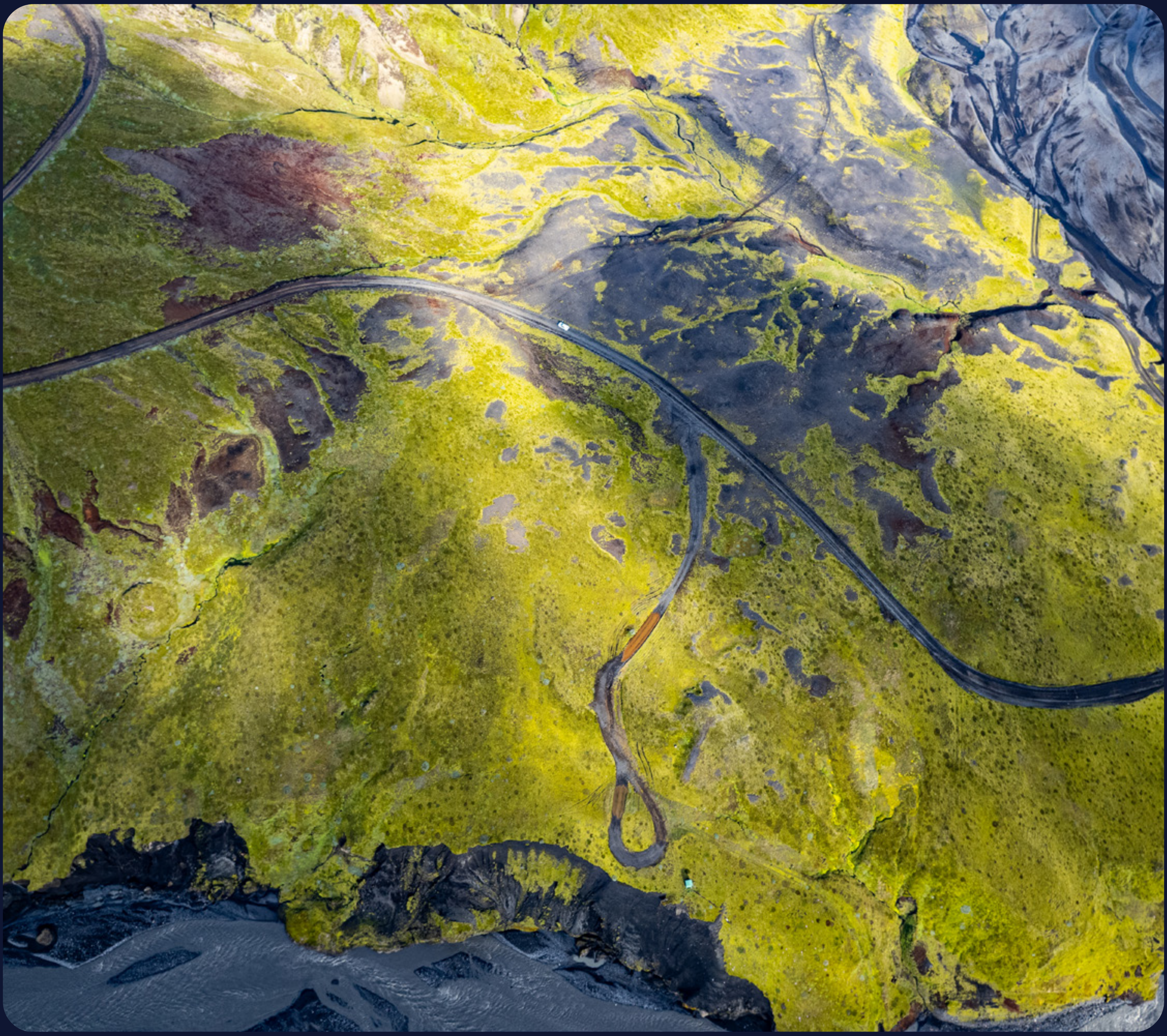
I am also very grateful to Citi Investor Services for sponsoring the publication of this report without influencing its findings in any way. Their arms-length support has helped canvass a wide spectrum of views on how the asset industry is being transformed.

My grateful thanks also go to IPE for helping to conduct the survey and especially to its editor, Liam Kennedy, for his wise counsel and unstinting encouragement throughout the lifespan of this series.

Last but not least, I would like to thank four colleagues at CREATE-Research: Anna Godden for desk research, Lisa Terrett for project management, Naz Rajan for data analysis and Dr Elizabeth Goodhew for editorial support.

If, after all the help I have received, there are errors and omissions, I am solely responsible.

Amin Rajan
Project Leader
CREATE-Research



1 Executive Summary

Introduction and Aims

Asset growth continues north, yet profitability keeps heading south.

Faced with this irony of riches, is this the moment to re-engineer the asset management industry?

The industry is in transition as it seeks to craft a new narrative on what it stands for and what it can deliver in the wake of seismic forces over which it has little control.

Externally, with the latest war in Iran, financial and oil markets have been in turmoil. The end-game is anyone's guess.

The World Economic Policy Uncertainty Index is heading back towards the all-time peak reached after "Liberation Day" in April 2025, mostly reversing the subsequent easing.

Since then, risk has been piling up, with technological disruption and continuing geopolitical tensions between economic superpowers.

The asset industry's underlying foundations are shifting with the changing winds.

As if that were not enough, profit squeeze within the industry has intensified. Big is becoming beautiful. Fee compression has become the norm. Shifts from actives to passives and traditional to alternatives are continuing apace. Alpha generation has been difficult while markets are frequently unmoored from their fundamentals. A new generation of investors is making fresh demands. Asset managers are caught in the crosshairs.

Winds of Change

The asset industry's underlying foundations are shifting with the changing winds. In response, it is reinventing itself. Innovation has raced up the corporate agenda for businesses seeking to equip themselves for a future defined by radical uncertainty.

Ill winds have also impacted asset managers who recently engaged in M&A to seek scale economies, as costs became a key driver of asset returns.

These managers are all too aware that the risk of over-reach is inherent in scaling up. Crunching businesses together in a people-oriented industry remains a daunting task. They, too, are seeking to reboot their value chain to enhance product predictability, client centricity, and operational efficiency.

On the upside, many asset managers see the current upheavals as a concealed opportunity to create businesses of enduring value for their end-clients, owners, employees and wider society.

This is occurring at a time when retirement savings are expected to grow as a new generation of employees are entering defined contribution plans in every fund jurisdiction. The savings glut, if anything, is likely to grow. Could it be put to good use? That is the challenge.

Hence, innovation is the new mantra – seeing what everybody has seen but thinking what nobody has thought. In this context, AI and GenAI are emerging as new drivers of productivity and value creation.

Research Issues

In the past, innovation aimed to improve product outcomes by refining the processes that aim to identify market needs, spark new ideas, and weed out the 'dogs' from the 'stars'.

Since the 2008 global financial crisis, however, the scope of innovation in asset management has widened to target higher efficiency in core processes in the value chain and its supporting organizational architecture.

Accordingly, this survey does a stock take on product, process and organizational innovations that gained substantive adoption over the past fifteen years or so. It pursues four questions:

- Are innovations now a strategic priority and are their goals being achieved?
- Which of the modern innovations have delivered most value to asset managers and their end-clients?
- Looking to the future, what types of innovation will be prioritized and what will be their key drivers?
- How far are fund administrators becoming innovation partners in asset managers' operating models?

These questions were covered in a survey of 221 asset managers, with a collective AuM of $34.8tn (see inside cover page) The survey was followed up by structured interviews with senior executives in 40 respondent businesses. The survey provided the breadth of coverage and the interviews the depth of insight. Together they served to shed light on recent trends and future prospects in the asset industry's current innovation journey.

Survey Highlights (% of respondents)

Innovation As a Strategic Priority

59%

See innovation as an overall strategic priority to a large extent and a further 30% to a medium extent

62%

See process innovation as a priority to a large extent and a further 36% to a medium extent

41%

See organizational innovation as a priority to a large extent and a further 49% to a medium extent

28%

See product innovation as a priority to a large extent and a further 42% to a medium extent

Innovations Delivering Most Value to End-Clients

57%

Report the conversion of mutual funds into ETFs as delivering most value

52%

Report the rise of capability platforms as delivering most value

51%

Report the rise of back office outsourcing as delivering most value

49%

Report the rise of ESG, impact investing and stewardship as delivering most value

Innovations to be Prioritized Over the Next Three Years

59%

Expect process innovations to receive most attention in their business

46%

Expect organizational innovations to receive most attention in their business

31%

Expect product innovations to receive most attention in their business

43%

Expect their advance into a digital future to take less than five years

Third Party Fund Adminstrators As Innovation Partners

44%

See partnership at scale as a strategic core capability entirely or to a large extent, and a further 45% see it to some extent

44%

Require fund administrators to be their innovation partners entirely or to a large extent, and a further 47% to some extent

37%

See partnership with fund administrators as de-risking innovation and creating optionality entirely or to a large extent, and a further 50% to some extent

23%

See fund administrators as an extension of asset managers' operating models entirely or to a large extent, and a further 57% to some extent

As investors surveyed the scale of losses, fees and charges came to matter in the total return calculus. They became the North Star of investing.

Main Findings

1. Innovation Turned into a Strategic Intent After the 2008 Global Financial Crash

This fat-tail event hit every asset class, stock market and client segment indiscriminately. As millions lost billions, central banks embarked on zero-bound interest rates to stave off a 1929-style depression. Not only did their cheap money policies put a floor under asset prices, they also fueled the rise of passive funds, pushing them into investors' core portfolios. Active funds struggled as markets became disconnected from the real economy. Fee compression became the norm.

As investors surveyed the scale of their losses, fees and charges came to matter in the total return calculus. They became the North Star of investing, as competition between passives and actives turned from benign to malign.

After suffering two savage bear markets in a single decade (2000-01 and 2008-09), it was time to do old things better alongside new things, in the face of a worsening profit dynamic. Innovation became a strategic priority (Figure A, left chart), with 59% of respondents reporting it as high priority and 30% as medium priority. For many, as beating markets became hard, the scope of innovation was widened beyond new products to meet changing client needs more cost effectively.

Accordingly, product innovation focused on customized solutions and superior client experience.

Process innovation, in turn, aimed to improve the productivity of core processes in the value chain via two routes: outsourcing of non-core activities in front, middle and back offices; and harnessing the corporate memory, the collective 'brain' of the business that ensures that ideas beget ideas in the innovation chain.

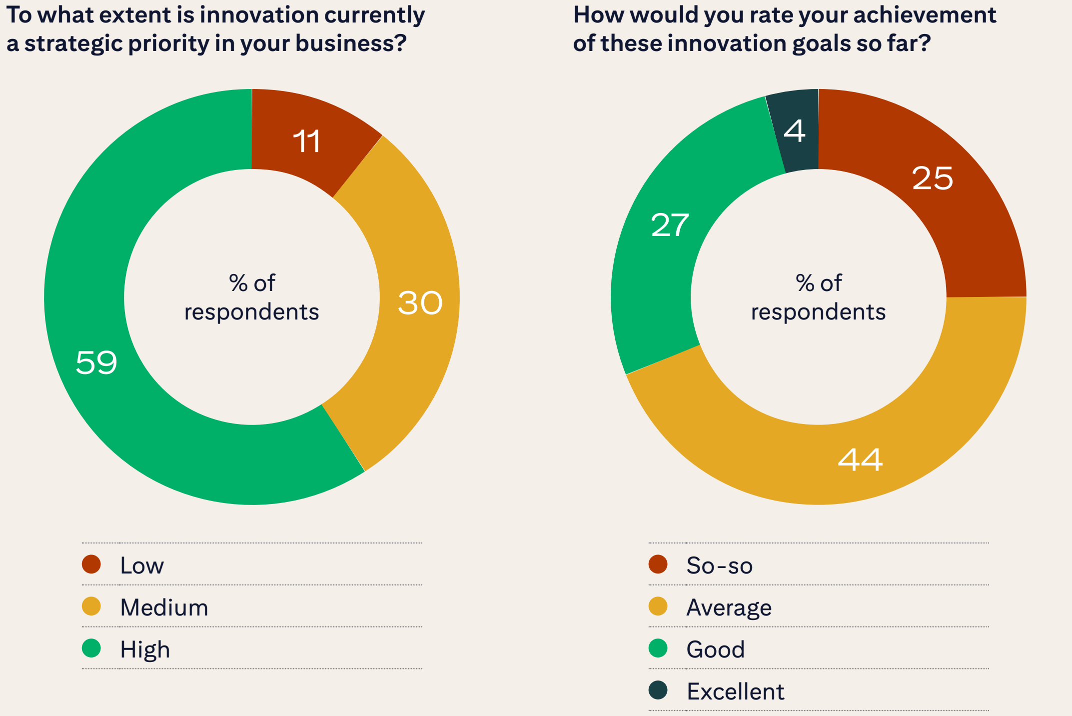
Finally, organizational innovations came to involve partnerships with best-of-breed external service providers to boost operating leverage. This aimed to ensure that even small increases in sales could result in disproportionate increases in operating income via falling unit costs from the economies of scale that flowed from partnerships. The idea was to deliver more for less within a leaner, fitter operating model.

As for the overall results of all the above innovations, 4% cited them as excellent, 27% as good, 44% as average and 25% as so-so (Figure A, right chart). A clear distinction emerged between doing business by focusing on core competencies and running the business by forming external alliances.

More details in Themes 1 & 2

Figure A

Source: Citi/CREATE-Research Survey 2026



Interview Quotes

"Before the crash, market recoveries always bailed us out and confronted us with the innovator's dilemma: if it ain't broke, why fix it?"

"Investors have wised up to the fact that to pay no attention to costs is the dumbest mistake they could make."

Process automation has advanced via the rise of digital distribution platforms offering client access and convenience, whilst assisting with price-performance comparisons.

2. Recent Innovations Have Delivered Win-Wins for Clients and Asset Managers

Our survey compiled a scorecard of outcomes for just under 25 innovations gaining prominence since 2008. Success is rated in terms of whether they delivered value to asset managers' clients while boosting managers' AuM and bottom line, as shown by the data below, drawn from Section 2.

i. Product Innovations

These have delivered new investment vehicles as well as themes.

Focusing on the vehicles, the conversion of mutual funds into ETFs tops the chart (57%). Active ETFs receive a lower rating, given their relative newness (43%).

Two other vehicles were singled out. One is smart beta, a systematic rules-based style that aims to deliver alpha returns at beta fees by relying on factor investing (49%). The other vehicle centers on personalized portfolios and direct indexing (43%). These enable asset managers to align exposures with the outcomes their clients need in separately managed accounts. They combine non-proprietary products with managers' proprietary options, including ETFs in multiple use cases to customize by sector, theme or jurisdiction.

Turning to investment themes, three topped the list. One is ESG, impact investing and stewardship funds (49%). Despite recent political backlash in the U.S., they have continued to attract attention in Europe and Asia Pacific, where the connect between ESG and its underlying growth engines remains intact. In the pension space, two styles have been rated high: target date retirement funds (48%) and liability-driven investing (44%). Both benefited from two sets of landmark regulations, respectively: the Pension Protection Act 2006 in the U.S. and mark-to-market accounting rules in Europe in 2005.

ii. Process Innovations

On the process side, innovations aimed to future-proof businesses via a variable cost-operating model to lower costs and process automation to raise productivity.

The first is created by linking business costs directly to the volume of business activity through back office outsourcing (51%), middle office outsourcing (39%) and front-to-back platforms with fewer hand-offs (24%).

In turn, process automation has advanced via the rise of digital distribution platforms offering client access and convenience, whilst assisting with price-performance comparisons for discerning clients (43%). These have been aided and abetted by the rise of data science that blends Big data and machine learning (33%), and the adoption of AI and GenAI (31%).

iii. Organizational Innovations

Process and organizational innovations have inevitably overlapped, since one underpins the other. Among the latter, two stand out. One marks a shift from product shops to capability platforms (52%). They offer rapid scale, reach, and access to growth markets. Another stand-out is new external alliances with best-of-breed service providers (50%). They lie at the heart of emerging partnerships at scale, discussed below.

More details in Section 2

Interview Quotes

"Active ETFs are a new way of constructing portfolios, generating alpha within a broad diversification."

"A variable-cost model is now replacing the long-used fixed-cost model, which could not be leveraged in a down market."

The march into a digital future is, first and foremost, a long journey of experiential learning based on trial and error.

3. Process and Organizational Innovations Will Likely Dominate the Next Wave of Innovation

Taking a three-year forward view, process improvements will continue to drive the main thrust of innovation, as cited by 59% of respondents (Figure B, left chart), followed by organizational innovation (46%) and product innovation (31%).

On the process side, key innovations will likely center on tokenization via rising fractional ownership of funds, the retailization of private markets, digital-enabled distribution platforms and the adoption of AI and GenAI to beef up the enabling infrastructure.

An array of promising use cases of AI and GenAI is emerging in front, middle and back offices, as fee compression has intensified the need for developing new revenue streams. But the march into a digital future is, first and foremost, a long journey of experiential learning based on trial and error. As shown in Figure 1.3 under Theme 3, 57% of respondents reckon their journey will take more than five years, the remaining 43% taking less than five years. The volume, variety and velocity of data now available to train large language models is impressive. But their veracity remains questionable. Besides, being responsible for other people's money means asset managers have always used turnkey plug-and-play technologies that are tried and tested by time and events. In contrast, AI and GenAI are a black box, the inner workings of which remain a mystery even to its creators. Issues abound around reliability and the explainability of their outputs.

Turning to the product side, a notable shift from product pull to product push is likely to become more evident. One thrived on bandwagonism and deft marketing in the former era of zero-bound rates; the other relies on products with intrinsic worth that can travel on their own. The shift is likely to be powered by AI and GenAI as they become more reliable over time and refine the essential arts of scenario planning, factor investing, dynamic investing and economic forecasting.

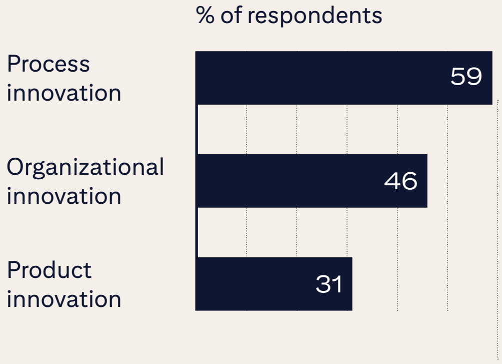
Together they are expected to assist the creation of products that are designed to ride out pronounced volatility in this extended era of radical uncertainty (Figure B, right chart). What product innovation may lack in breadth, it may more than make up in quality, as AI and GenAI acquire IMI status – the invention of a method of invention.

More details in Theme 3

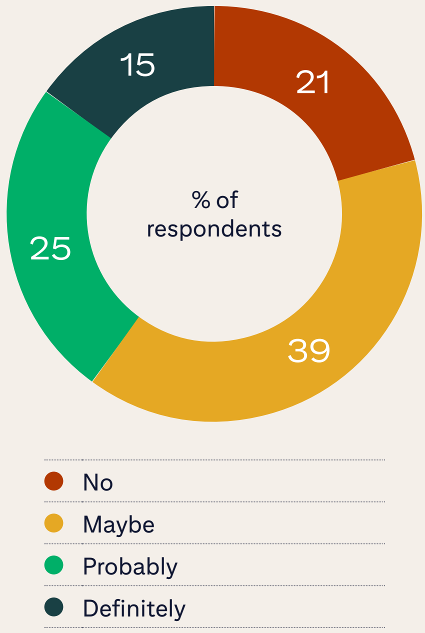
Figure B

Source: Citi/CREATE-Research Survey 2026

Which types of innovation will receive most attention in your business over the next three years?



Given the current volatile state of markets, is it possible to create new investment products that can ride out volatility and market cycles?



Interview Quotes

"The rise of a digital wallet via tokenization will see ETFs emerge as an efficient ownership structure for on-exchange assets."

"Data science is advancing fast in volume and velocity. Monetizing our data trove is one of our priorities."

The search for operational alpha has intensified as the support infrastructure became a competite tool.

4. External Service Providers are Emerging as Innovation Partners

The asset industry's profit dynamic has deteriorated in this decade due to a double whammy: falling organic growth and fees on one side, and rising costs and regulatory complexity on the other. Performance is no longer the sole battleground: cost to investors now matters more than ever. The search for operational alpha has intensified as the support infrastructure became a competitive tool via the outsourcing of non-core activities, leaving asset managers to focus on core competencies to improve investor outcomes.

Outsourcing is more advanced in the back office, where it first started. It is now progressing into the middle office and, to a lesser extent, the front office. The trend has morphed into what is now a strategic core capability for the majority of survey respondents: namely, partnership at scale that serves to de-risk innovation and create optionality. It marks a shift from competition to collaboration with third parties – fund administrators, FinTechs, technology providers, and peers – to improve innovation capabilities, build scale and share risk rather than relying solely on asset managers' in-house capabilities or external acquisitions. Such partnerships have turned innovation into a core operating capability requiring asset managers and their fund administrators to innovate together, with 12% citing entirely, 32% to a large extent and 47% to some extent, leaving 9% to cite not at all (Figure C, left chart).

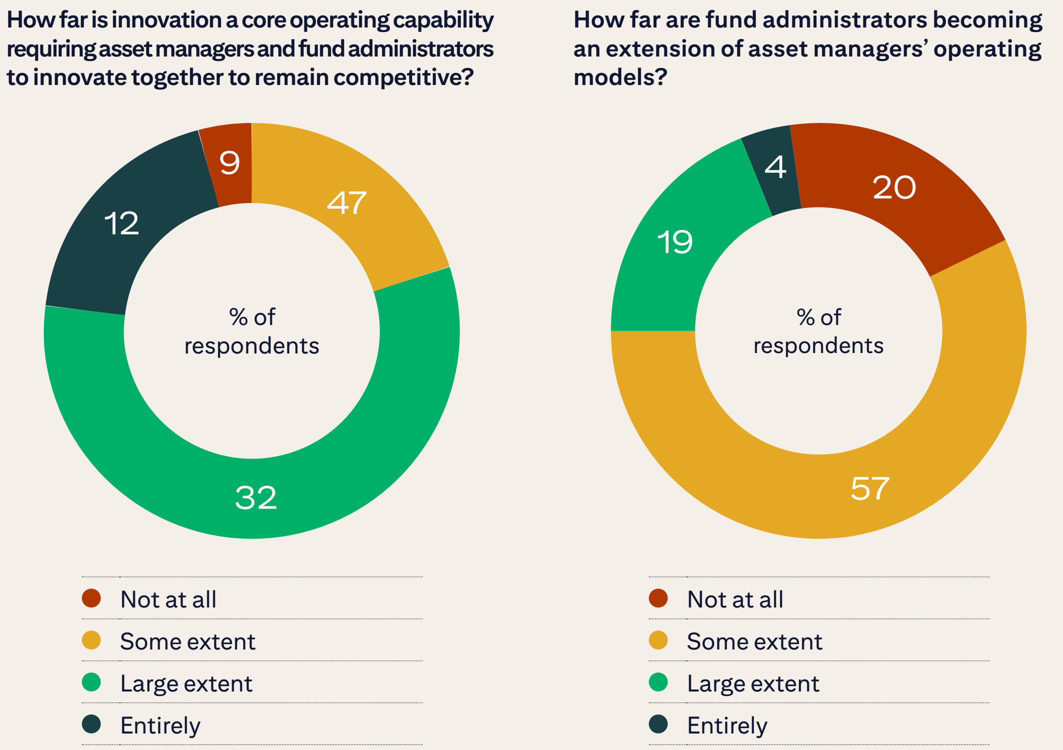
No longer is innovation the preserve of star managers. Collaboration is now the key to minimizing pain as the asset industry goes mass market in search of new opportunity sets. Outwardly, this is manifested by the extent to which fund administrators are a *de facto* extension of asset managers' operating models (Figure C, right chart): 4% cite entirely, 19% to a large extent and 57% to some extent, leaving 20% to cite not at all. Innovation apart, such partnerships have proven invaluable as managers have sought to expand globally where regulatory frameworks vary markedly.

The one-time cottage industry has professionalized rapidly, as the 2008 crash proved to be the mother of innovation. There is no steady state in sight as the asset industry continues to be reshaped under Darwinian pressure.

More details in Themes 4, 5 & 6

Figure C

Source: Citi/CREATE-Research Survey 2026



Interview Quotes

"Partnership at scale is redefining the ecosystem of the asset industry. Specialization is the name of the game."

"Asset servicers know a lot about products, clients and jurisdictions. We often use them as our thinking partners."

Theme 1: The Scope of Innovations Has Expanded

The 2008 Global Financial Crisis was a turning point for innovations in the asset management industry.

The ensuing extended era of zero-bound interest rates disconnected asset prices from their fundamentals, making passive funds almost a one-way bet. As shown in Section 5, alpha returns became rarer and dearer. Profit margins took a hit. Fees came under intense pressure. Costs came to matter significantly in total returns hit by frequent discontinuous events that have proven hard to model as simple probability distributions.

Before then, the main thrust of innovation was directed at creating blockbuster alpha products, but fewer new products survived for long as the rise of passives became foundational. Hence, the scope of the innovation effort had to expand to achieve leaner and fitter operating models via two further means. One was process innovations that improve the productivity of all the activities in the asset value chain. The other was organizational innovations that targeted scale and operating leverage. The latter two types of innovations now lead the charge (Figure 1.1). The full list of all recent innovations and their respective impacts is provided in Section 2.

On the product side, innovations aimed at delivering investment vehicles, like ETFs and advice-embedded personalized portfolios in various formats. They have also delivered specific themes like ESG, target date investing in DC plans and liability-driven investing (LDI) in DB plans.

On the process side, they have aimed to future-proof the business by adopting a variable cost operating model where costs are directly linked to the level of activity. Key avenues thus far have involved the outsourcing of back and middle office activities, and the rise of front-to-back platforms with fewer hand-offs. These have been more visible alongside continuing process automation that has seen the rise of digital distribution and data science.

On the organizational side, there has been a shift from product shops to capability platforms, as part of growing alliances with best-of-breed external service providers. Among others, they run data warehouses, stress test new products via simulation models, create funds for different jurisdictions and perform independent valuations of illiquid assets.

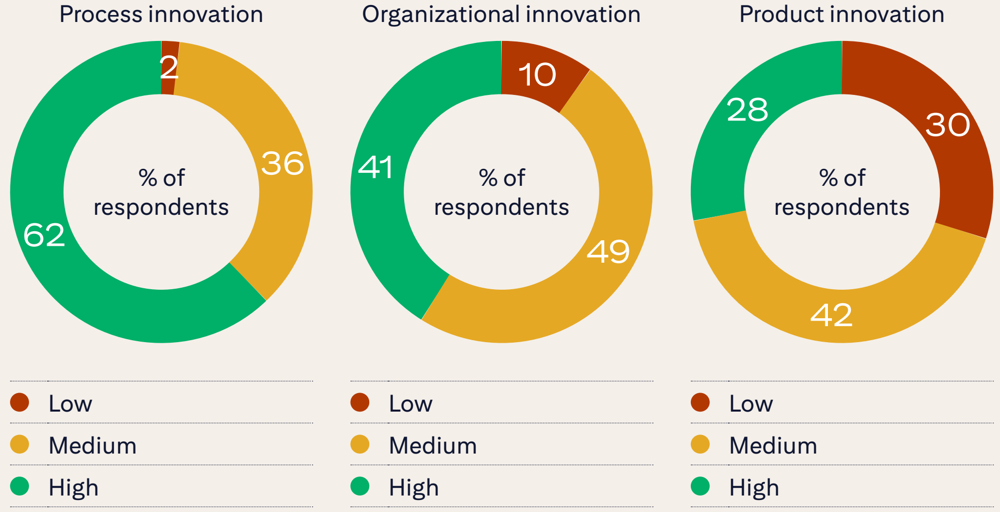
The resulting professional overlay is transforming asset management beyond recognition from what was considered a cottage industry just two decades ago.

Costs came to matter significantly in total returns hit by frequent discontinuous events that have proven hard to model as simple probability distributions.

Figure 1.1

Source: Citi/CREATE-Research Survey 2026

What degree of priority does your business attach to these three types of innovation currently?



Interview Quotes

"There was a lot of laziness about innovation in our industry until the 2008 bear market. That was a wake-up call. Things had to change."

"Operational excellence gives us an edge in costs, quality and credibility. Alpha returns require savvy execution across the chain."

Theme 2: Innovations Are Targeting Multiple Goals

Innovation goals underline the distinction between doing business by focusing on core competencies and running the business by forming external alliances.

The broadening of the innovation base is targeting three interdependent goals: meeting client needs, creating a competitive edge and enhancing scale.

Taking them in turn (Figure 1.2, upper panel), far and away the most important goal is to be more responsive to client needs during their investment journey (83%). This means meeting their return expectations and risk appetites within cost-effective fee structures that deliver value for money and positive client experience (55%). Regulatory transparency is also essential as clients want to be assured that asset managers comply with the letter and the spirit of local laws (44%). These goals matter as the retailization, tokenization and fractionalization of private markets gather pace from a slow start.

As for creating a competitive edge (Figure 1.2, middle panel), raising productivity across the value chain has become a priority to create an operating model that delivers more for less via falling unit costs (74%). In that context, attention is also focused on two other areas. One is leveraging corporate memory, which learns from past successes and failures, and ensures that ideas beget ideas (55%). The other is minimising operational failures that raise reputational and litigation risks (49%).

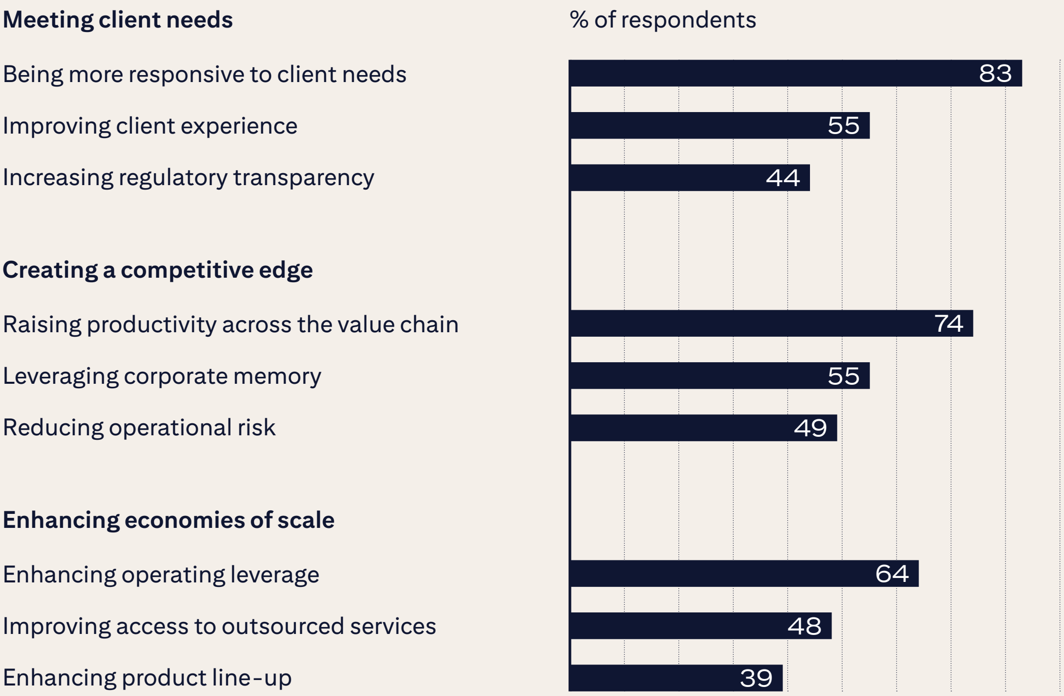
The final goal of innovations is enhancing scale (Figure 1.2, lower panel) via three routes: raising operating leverage (64%); improving access to outsourced services to enjoy economies of scale (48%); and enhancing product line-up (39%).

Overall, innovation goals underline the distinction between doing business by focusing on core competencies and running the business by forming external alliances via outsourcing of non-core activities. Both now matter in improving those basics that have always mattered to clients: performance, service quality, fees & charges, risk management, and regulatory compliance. A new ecosystem is emerging to deliver these time-honored needs.

Figure 1.2

Source: Citi/CREATE-Research Survey 2026

What are the main goals of innovation in your business currently?



Interview Quotes

“The inventor of the first wheel was clever. The inventor of the other three used corporate memory and was a genius.”

“Only a gold standard in client engagement can enhance trust and enlist clients as our innovation partners.”

These self-learning systems raise explainability issues as much as regulatory challenges.

Theme 3: The Digital Future Will Evolve Gradually

An array of promising use cases is emerging across the asset management value chain, albeit with a low level of autonomy while digital governance evolves. For example, in the front office, analysts are using GenAI agents to synthesize data from earnings calls, financial reports and conferences. In the middle office, agents are used to interpret complex regulation. In the back office, they are used in fund accounting and trade reconciliation. Yet, despite this progress, the asset management industry appears to be at an early stage of adoption, as shown in Section 3. Caution remains the watchword.

Historically, corporate transformations seemed unnecessary when the asset industry's net profit margins hovered around 40%. But as those margins have seen a secular erosion in recent years, the search for developing new revenue streams has intensified. That has been accompanied by interest in AI and GenAI as transformative instruments of value creation and process automation.

However, their adoption will remain incremental, not wholesale, as asset managers enter a digital future (Figure 1.3). Only 12% expect to get there within three years and a further 31% within 3-5 years. The remaining 57% are likely to take longer than five years. A number of constraints have been at work.

To start with, their self-learning capabilities are a double-edged sword. On one side, they truly learn for themselves in order to deliver investible information and actionable insights; on the other, the resulting flexibility means that these self-learning systems raise explainability issues as much as regulatory challenges.

Furthermore, the veracity of data used as inputs in training large learning models has constituted a barrier. Such data have yet to cross the threshold of market confidence. On the outcomes side, 'hallucinations' are an issue. The models appear to spew out seemingly plausible facts but contain inaccurate or misleading information, with no reliable in-built mechanism for verifying it, other than human judgment.

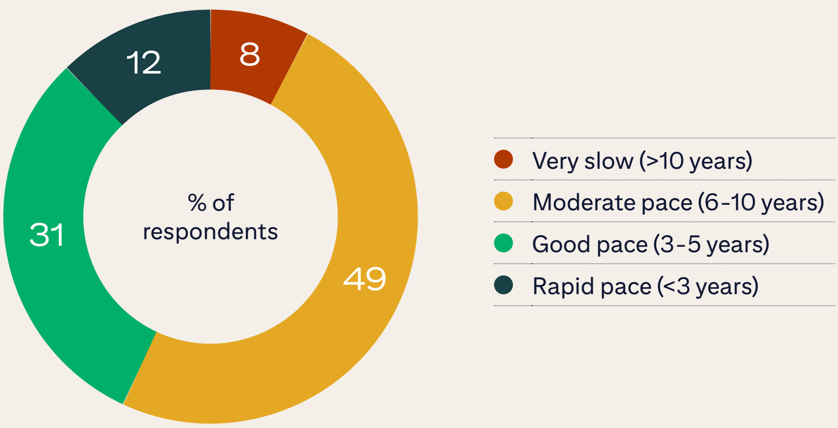
Finally, GenAI has yet to come to terms with the reflexivity of financial markets. New observations alter dynamic investor behaviors and newly emerging patterns change the very foundations of markets.

Hence, learning by doing has become the guiding principle driving the current rate of adoption.

Figure 1.3

Source: Citi/CREATE-Research Survey 2026

How long will it take for your business to embrace a digital future?



Interview Quotes

"The volume, variety and velocity of data needed to train large language models is impressive but its veracity is another matter."

"AI and GenAI are revolutionary in design but remain experimental in execution until various data and governance issues are resolved."

Strict adherence to regulation has often worked against out-of-the-box thinking.

Theme 4: Regulation Has Proven a Mixed Blessing

Various regulatory instruments have been pivotal in promoting innovation in the asset management industry in North America, Europe and Asia.

Examples include the landmark Pension Protection Act 2006 in the U.S. It orchestrated an economic nudge – an autopilot version of 401(k) with three key innovations in plan design: auto-enrolment of all eligible employees, auto-escalation of annual contributions and a selection of default investment options. Target date funds duly took off.

In Europe, in contrast, new mark-to-market accounting rules in 2005 brought forth LDI. Also, the Sustainable Finance Disclosure Regulation (SFDR) facilitated investment in climate funds.

In China, in turn, the legal disclosure of policies and practices in the corporate social responsibility arena for listed companies sparked the rise of ESG funds.

These and other examples show that by creating new frameworks, regulation has stimulated innovations that have enabled the creation of new opportunity sets. As Figure 1.4 shows, 31% of respondents see regulation as an enabler. Conversely, 50% see it as a blocker and the remaining 19% see it as both an enabler and a blocker.

In their defence, regulators have been keen to protect client interests. Like cars and computers, fund products offer no guarantees on outcomes, their replicability or their shelf life. Much depends upon the prevailing market environment. Investing is based on articles of faith that rely on best-endeavor outcomes.

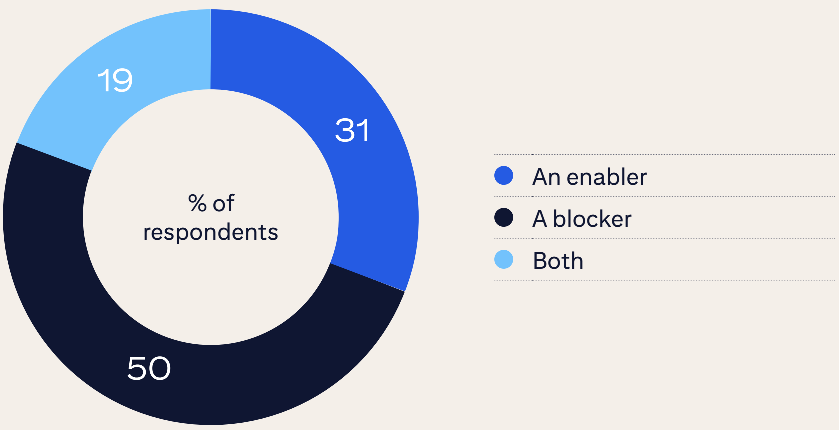
Hence, first and foremost, regulators have aimed to turn asset managers into fiduciaries of client interests by ensuring that clients are sold products they need, rather than those the managers have. In practice, this has involved performing a high-wire act between innovation and client needs, between business profits and franchise risk, between product-push and product pull, and between the letter and spirit of regulation.

As an unintended side effect, strict adherence to regulation has often worked against out-of-the-box thinking, and has also ensured that current technology-based work processes remain reliant on constant human intervention and oversight.

Figure 1.4

Source: Citi/CREATE-Research Survey 2026

On balance, what has been the role of regulation in innovation in your business?



Interview Quotes

"Regulation has played a big role creating worthwhile strategies in two separate areas: retirement planning and ESG."

"Regulators are squeezing creativity out of sales and marketing, and making client relationships needlessly transactional."

Operational alpha refers to investment performance gains derived from superior process efficiency and technology rather than direct investment decisions.

Theme 5: The Need to Stand Out Has Never Been Greater

Worsening profit dynamics have forced asset managers into a balancing act. On one side, the need to stand out via AI and GenAI has never been greater for recalibrating their value chain from ground zero. On the other, they have to guard the legacy revenue stream whilst implementing unfamiliar technologies.

That aside, generating alpha returns has become increasingly challenging in an era where politics more than economics drives the markets. Hence, for the foreseeable future, incrementalism is likely to be the name of the game in tech adoption and forming partnerships across the value chain is now a most credible way of delivering what is termed operational alpha.

Operational alpha refers to investment performance gains derived from superior process efficiency and technology rather than direct investment decisions. This is achieved by having a razor-sharp focus on firm-specific value-added differentiators, while outsourcing the rest of the value chain to best-of-breed third-party administrators (Figure 1.5, left chart). It is not just about reducing costs, as was the case in the past, but now includes activities like innovation, risk mitigation, compliance and decision making.

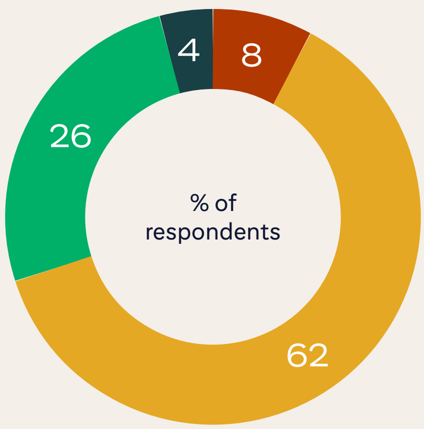
The notion of core competency is now extended to include creating value across data, clients and third-party administrators and other service providers in the emerging horizontal ecosystem (Figure 1.5, right chart). It also includes meeting escalating regulatory complexity, as key agencies like SEC, ESMA, FCA, and APRA have continued to enforce stringent reporting, transparency and compliance standards.

Overall, partnerships now offer what the majority of asset managers need: scale that reduces unit costs, offers new sales channels, improves pricing power and promotes symbiotic branding.

Figure 1.5

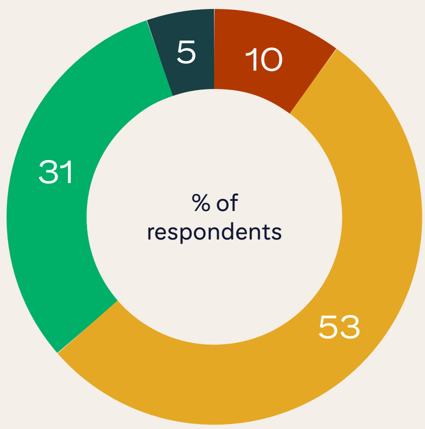
Source: Citi/CREATE-Research Survey 2026

To what extent does 'operational alpha' extend beyond lower costs and now embrace added-value activities like innovation, risk management, compliance and decision-making?



- Not at all
- Some extent
- Large extent
- Entirely

To what extent is the core competency of asset managers extending from vertically integrated product shops to seeking value creation across data, clients and partners in the horizontal ecosystem?



- Not at all
- Some extent
- Large extent
- Entirely

Interview Quotes

"The rapid adoption of AI and GenAI while protecting the legacy revenue stream is akin to repairing a plane mid-air."

"Rising costs and relentless fee compression has turned the spotlight on operational alpha to improve investor outcomes cost effectively."

Recent travails have forced asset managers to re-engineer their value chains, instead of just tinkering at the edges.

Theme 6: Partnership at Scale Becoming a Strategic Core Capability

Outsourcing has now evolved to the point where it is morphing into partnerships at scale. It allows asset managers to choose what to own, who to partner with and how to interoperate with external best-of-breed service providers. It marks a strategic shift from competition to collaboration, where firms work with third parties – fund administrators, FinTechs, technology providers, and peers – to build scale, enhance capabilities, and share risk by combining unique capabilities.

When asked to what extent partnerships at scale constitute a new strategic core capability, only 11% said not at all (Figure 1.6, left chart). Among the rest, 45% said to some extent, 30% to a large extent and 14% said entirely. Recent travails have forced asset managers to re-engineer their value chains, instead of just tinkering at the edges. When asked to what extent do partnerships at scale de-risk innovation and create optionality for asset managers, only 13% replied not at all (Figure 1.6, right chart). Among the rest, 50% said to some extent, 27% to a large extent, and 10% said entirely.The optionality aims to maximize future choices and flexibility, rather than committing to a single, rigid path in an uncertain world. It also aims to benefit from volatility, not be hurt by it.

Hence, asset managers have raised the bar when selecting fund administrators, by drawing a distinction between qualifiers and differentiators.

The former cover the business basics they need to get right to have baseline credibility in the selection process. These include, among others, a value-for-money fee structure, robust operating platforms, and a strong regulatory track record. But as competition among administrators has intensified in this decade, these criteria have been converging on similar, though exacting, standards that are no longer enough to give a competitive edge.

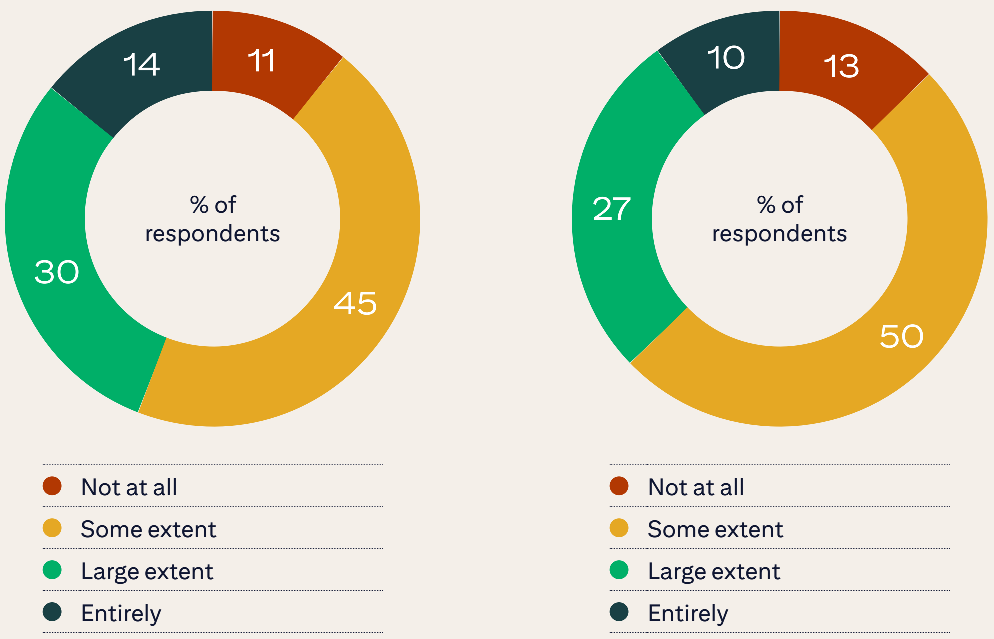
They are now being bolstered by the current top three differentiators: a proven disaster recovery and cyber security capability; ESG reporting; and an innovation agenda based on co-investing, led by a joint steering group of domain experts engaged in innovation labs and 'sandboxes' to test new ideas.

Figure 1.6

Source: Citi/CREATE-Research Survey 2026

Is 'partnership at scale' a new strategic core capability?

To what extent do such partnerships de-risk innovation and create optionality for asset managers?



Interview Quotes

"We have a shared innovation agenda and KPIs with our administrators, backed by effective governance and regular reporting."

"Rising competition amongst fund administrators has helped asset managers raise the bar in their selection process."

2 Innovation Scorecard

Which innovations have worked best?

Overview

This section addresses two questions about innovations of the recent past:

- Which innovations have delivered most value to end-clients?
- What have been their overall impacts on asset managers and end-clients?

"Active ETFs are coming of age by helping cost-sensitive investors combine the best of active and passive investing."

An interview quote

Key Findings

Impact of Specific Innovations

A number of innovations have emerged. Some seek to deliver new or improved products to meet client needs. Some seek to deliver improved process efficiency to deliver a competitive edge. Some seek to improve organizational structures to enhance operating leverage. Together they aimed to deliver value to end-clients.

i. Product Innovations

Some have delivered new investment vehicles to deliver value. Those that have topped the charts include:

- Conversion of mutual funds into ETFs
- Smart beta, using factor investing
- Active ETFs that combine the best of active and passive funds
- Personalized portfolios and direct indexing.

Other product innovations have delivered value by pursuing specific themes. They include:

- ESG, impact investing and stewardship
- Target date retirement funds in DC plans
- LDI in DB plans
- Private markets access to retail investors.

ii. Process Innovations

Here, the value add has come from two sources. The first has delivered a variable-cost business model via:

- Back office and middle office outsourcing
- Front-to-back platforms with fewer hand-offs.

The second has delivered process automation via:

- Digital distribution
- Rise of data science
- The adoption of AI and GenAI.

iii. Organizational Innovations

Here, the value add has come via:

- A shift towards capability platforms
- External alliances with service providers
- An outsourced CIO model.

An Overall Win-Win for End-Clients and Their Asset Managers

For clients, the key benefits thus far include customized solutions and an improved experience for digitally savvy investors.

For asset managers, they include operating leverage, improved profitability and enhanced client trust.

Core Message

Innovation has been a key instrument for asset managers of all sizes and hues to help them remain relevant in a landscape where competition has turned from benign to malign. That marks a decisive shift from product push, thriving on bandwagonism and deft marketing in the era of easy money policies, to product pull where good products with intrinsic worth have often traveled on their own.

The conversion of mutual funds into ETFs tops the chart.

Innovations Have Achieved Varying Degrees of Success

Investment innovations have come in three forms: product, process and organizational. Figure 2.1 presents a scorecard of the success of their component elements, defined as delivering most value to their end-clients.

a. Product Innovations

As mentioned in Section 1, the success of product innovations covered here depends on their intrinsic quality as much as the prevailing market environment. As a group, they have centered on creating new investment vehicles and investment themes.

i. Investment Vehicles

The conversion of mutual funds into ETFs tops the charts, cited by 57% of survey respondents. Three other ETF vehicles have also been cited by a significant minority. First, active ETFs are gaining traction, as they make less governance demands for investors in search of alpha returns (43%).

Second, thematic ETFs have enabled investors to follow the turbocharged megatrends that define secular growth points in the global economy seen as the more predictable sources of value creation, such as technology, healthcare and demographics (36%). Lately, these funds have suffered, as investors had to pick the right theme, the right stocks, and be right about the timing of the purchase.

Getting that trifecta right has proven tough in this era of heightened risk-on/risk-off geopolitical tensions.

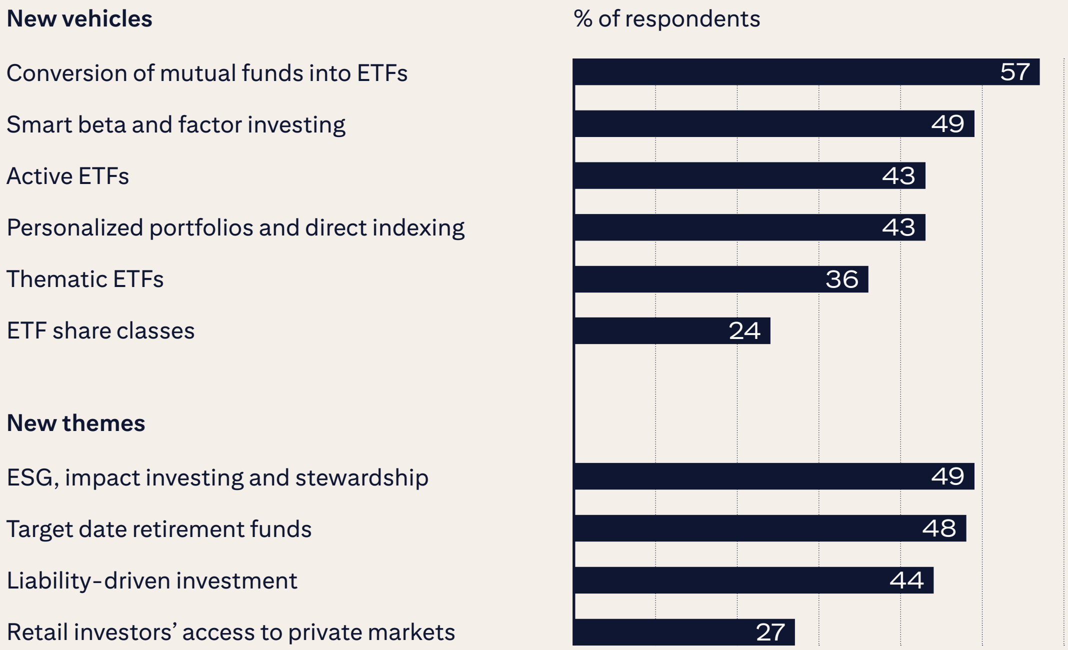
Third, ETF share classes have scored less well in the nascent stage of their evolution (24%). The product of the 2024 ruling from the SEC, they are an ETF version of an existing mutual fund within the same portfolio, combining the benefits of both structures, and generating superior tax efficiency and economies of scale. Seismic effects are anticipated (see Insights on page 23).

Figure 2.1

Source: Citi/CREATE-Research Survey 2026

Which of the following innovations have delivered most value to your end-clients so far?

Product innovations



(Continued)

Interview Quotes

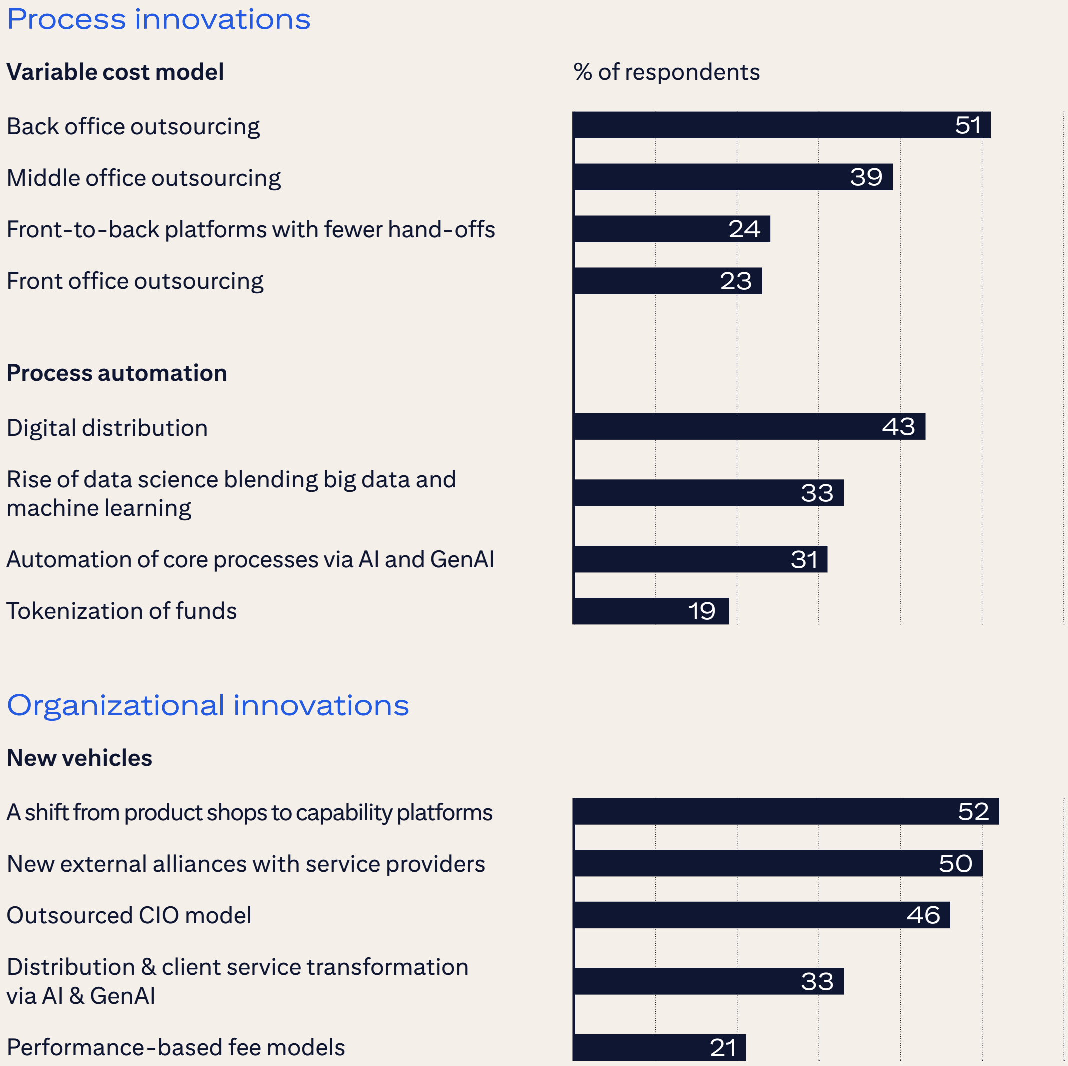
"Active ETFs seem a more cost-effective way of generating alpha with a low governance budget and expertise."

"Thanks to technology, multi-asset funds can now be packaged and customized at the point of sale."

Figure 2.1 (cont.)

Source: Citi/CREATE-Research Survey 2026

Which of the following innovations have delivered most value to your end-clients so far?



Smart beta has aimed to seek alpha returns at beta fees.

Alongside ETFs, other vehicles are also reported as delivering value to end-clients. One is smart beta, using factor investing (49%). As a systematic rules-based style, it has been blurring the demarcations between active and passive. It uses AI and GenAI in selecting various risk factors, their weights and timings, leaving portfolio managers to decide which factors to use and when to dial up and down risk. Smart beta has aimed to seek alpha returns at beta fees.

A final vehicle worthy of note centers on personalized portfolios and direct indexing (43%). These enable asset managers to align exposures with the outcomes their end-clients need in their separately managed accounts. They combine non-proprietary products alongside managers' proprietary options, including ETF products and their multiple use cases that customize by sector, theme or fund jurisdiction.

ii. Investment Themes

Here, ESG, impact investing and stewardship top the list (49%). This form of investing gained rapid traction after the Covid pandemic. Lately, however, as a result of political backlash in the US, interest has waned somewhat in this large

Interview Quotes

"Most of today's innovations seek to customize old asset classes to meet new needs rather than creating anything novel."

"Client experience is becoming a key differentiator with Gen X and Gen Y."

Outsourcing has enabled asset managers to do more with less by leveraging specialized expertise from third party administrators.

fund market where there has been a disconnect between ESG and its underlying investment engines. This, however, is not the case in Asia Pacific and Europe.

In contrast, the next two themes have delivered value to clients in all regions, thanks to strong regulatory tailwinds. One of them centers on advice-embedded target date retirement funds (48%). In response to the Pension Protection Act 2006 in the U.S., these funds have proven a positive force in resetting investor's behaviors within DC plans. They automatically shift from higher-risk to lower-risk assets within a preset glidepath as the investor approaches a set target retirement date.

Another theme that has gained traction due to regulatory tailwinds is LDI (44%). It benefited from changes in the accounting rules affecting pension plans in Europe in 2005. Like target date funds, LDI has similar glide paths in the DB space. These trigger gradual asset shifts from risky to less risky assets that mimic a plan's liability profile, as plan deficits decline over time.

Finally, the much talked about democratization of private markets by opening them to retail investors has, thus far, had a low incidence of success (27%). One reason is their relative newness. The SEC last broadened the 'accredited investor' definition in 2020 by allowing individuals with certain sophistication credentials to qualify without meeting the income and net worth thresholds. In addition, President Trump signed an Executive Order allowing DC plans to invest in private market assets in August 2025. With private markets now entering 401(k) plans in the US, there will be a permanent buyer that wasn't previously present. Prices are likely to escalate while expected returns will probably be lower.

Another reason behind the low incidence of success is that private market assets have faced headwinds since the bear market of 2022-23, causing a double whammy: narrower exit routes on fund maturity and weaker inflows. Besides, there are significant concerns that private markets are too risky for investors lacking the requisite level of financial literacy to enter opaque asset classes. Some degree of 'adverse-selection' is inevitable.

b. Process Innovations

As we saw in Theme 1 in Section 1, of the three generic innovations covered by this report, process innovations have been top priority. They are seen as delivering the operational excellence that is key to creating value for end-clients. Such innovations have aimed to deliver two goals: creating a variable-cost business model where costs are directly linked to the volume of business activity, and automating workflows to improve process productivity.

i. Variable-Cost Business Model

The main instrument here is outsourcing. It has enabled asset managers to do more with less by leveraging specialized expertise from best-of-breed third-party administrators. Starting out with basic back office functions like custody and settlements in the early 2000s, outsourcing has deepened and broadened to cover high value-added activities such as trade support and risk management in the middle office and research and trading in the front office. As Figure 2.1 (second panel) shows, back office tops the chart in value added to end-clients (51%), followed by middle office (39%) and front office (23%).

This rank order also reflects the incidence of outsourcing thus far: it is highest in back office and lowest in front office. In a bid to create a variable-cost model, asset managers have identified core activities where they can add most value and outsourced the rest. As a result, process-intensive activities such as custody, settlement and portfolio accounting are now mostly outsourced to third party administrators. As our 2025 survey Rebooting the Global Asset Management Industry showed, ever more front and middle office activities are likely to be outsourced over the next three years. Third party administrators are developing capabilities across the entire value chain of investing. Their current generation of front-to-back platforms with fewer hand-offs are already seen as delivering value (24%).

ii. Workflow Automation

The emphasis on operational excellence is further evidenced by the impact of various initiatives towards automation aimed at enhancing cost efficiency and client proximity. Most of these initiatives have only been implemented in this decade. But early indications look positive among early movers.

To start with, digital distribution has improved client access and convenience, whilst assisting with price-performance comparisons for discerning clients (43%). Many among them are digitally savvy self-directed individuals demanding a superior client experience.

Interview Quotes

"At the start of this century, a variable-cost model was a distant dream in the people-oriented asset business. Now it is a reality."

"Tokenization holds big promise. It will revolutionize private and public markets alike."

Platform-based business models offer rapid scale, reach, and access to growth markets.

Furthermore, the automation of core processes via AI and GenAI has been gradual, as shown in our 2025 survey Rebooting the Global Asset Management Industry. But early adopters are now reporting benefits to end-clients (31%).

Allied to this development has been the beneficial rise of data science blending Big Data and machine learning (33%). The on-going convergence of private and public markets is breaking down data silos and ushering in new industry standards to provide a holistic portfolio view.

Finally, the much talked about tokenization of funds has gained traction with crypto assets. Pilots are now in progress covering money market funds used by institutional investors in their treasury operations. Their positive impact has been less widespread (19%).

c. Organizational Innovations

Process and organizational innovations have overlapped: one often facilitates the other, as can be seen in the bottom panel in Figure 2.1. The aim is twofold: to enhance operating leverage on the one hand and fund returns on the other. The innovation that tops the list has involved a shift from product shops to capability platforms (52%).

These benefits lie at the heart of the emerging notion of partnership at scale, discussed in Section 5. Some managers have sought scale via M&A. For the vast majority of the rest, such partnerships have served to beef up their capabilities in a competitive landscape. Platform-based business models offer rapid scale, reach, and access to growth markets. These partnerships have been evolving since the outsourcing of the back-office activities at the start of this century to deliver the new holy trinity of the asset business: a variable-cost operating model, decent risk-adjusted returns and superior client service (50%). The partnerships have also turned asset managers into service providers with the rise of the outsourced CIO model. It has enabled institutional investors to externalize their entire investment value chain to third party asset managers in the face of rising costs of technology, talent and regulatory compliance (46%).

The resulting distribution and client service transformation via AI and GenAI have offered a range of products in private as well as public markets (33%). End-clients have access to data analytics and visualization tools to improve decision making like never before.

Insights

ETFs Will Continue to Power Ahead

The ETF market has matured rapidly. Europe alone saw the trebling of the active ETF universe last year, as investors targeted high active share exposures as part of the natural evolution of the ETF wrapper to target alpha generation within broad market coverage.

In the U.S., ETFs also tend to generate fewer capital gains tax liabilities for investors than mutual funds, since they sell their underlying holdings infrequently.

With the rise of geopolitical risk, our institutional clients have increasingly adopted dynamic asset allocation. They are using ETFs to target a variety of goals, like daily liquidity, hedging identifiable risks, tactical asset allocation and a broad diversification within a single position.

They see ETFs as a form of financial engineering that is supremely efficient and easy to export to any number of regions. The recent SEC ruling boosted ETF-as-a-share-class structure. This allows us to operate a mutual fund and a sister ETF as essentially the same vehicle, generating superior tax efficiency and economies of scale.

The next frontier in ETF is to enter private markets and provide access to investors who would not otherwise have it. Nobody has cracked that yet. For now, as the world moves towards a digital wallet via tokenization, ETFs will likely emerge as the most efficient ownership structure for on-exchange assets.

At the same time, we are alive to the risk that, in ETFs, there can be a mismatch between the tradability of their structure and the underlying characteristics of the component securities. Also, it remains unclear at what level of market penetration ETFs can undermine the two traditional functions of capital markets: price discovery and efficient capital allocation.

Time will tell whether ETFs are an all-weather strategy.

A Swiss asset manager

Interview Quotes

“Outsourcing is morphing into partnership at scale, as specialization is becoming the name of the game.”

“The outsourced CIO model is set to grow as ever more pension investors resort to dynamic investing that requires specialized skill sets.”

DC plan members and their retail peers distinguish between 'product alpha' and 'solutions alpha'.

Innovations Have Delivered a Win-Win So Far

Innovations covered in previous subsections have, so far, delivered specific benefits for end-clients and their asset managers alike (Figure 2.2).

For end-clients, two benefits stand out: customized solutions (58%) and improved client experience for digitally savvy self-directed investors (49%).

The last decade witnessed the biggest march towards the personalization of risk in all pension markets. Individuals were enjoined to accept more responsibilities towards their retirement planning. Ageing demographics pushed up national welfare budgets and ultra-low interest rates ballooned employers' liabilities in their DB plans, forcing them to de-risk their balance sheets by switching to DC plans for new members.

This was at a time when the informational inefficiencies that generated market-beating returns have been arbitraged away in fleeting moments as traditional alpha fell victim to the Internet: once-arcane sources of data suddenly became available to everyone. The rate at which market-valuable information could be found, disseminated and acted upon rose exponentially. The chase for alpha delivered a double whammy: beta returns at alpha fees. Attention turned to solutions alpha. DC plan members and their retail peers distinguish between 'product alpha' and 'solutions alpha'. One is about beating the markets, the other about meeting investors' pre-defined needs. Solutions alpha has been the epicenter of innovation in the pension space.

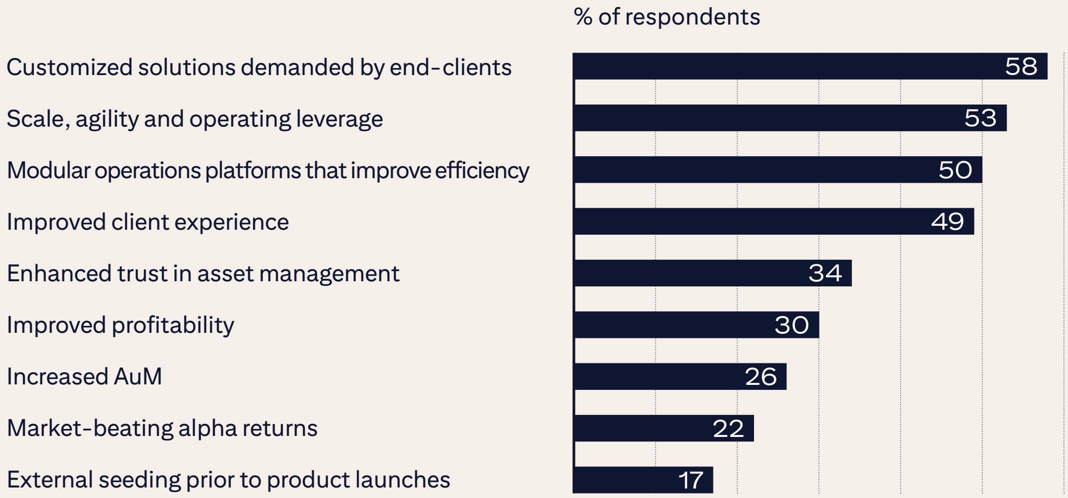
Key examples include LDI in DB plans, life cycle investing in DC plans, and advice-embedded investing in the mass market segment. Regulation has played a pivotal role (see Insights on next page). The most far reaching was the Pension Protection Act 2006 in the U.S..

It recognized that most plan participants viewed investing as an intimidating pursuit. They ended up following the path of least resistance. As a result, the 'nudge economics' implicit in the Act are designed to address two well-known behavioral traits of plan participants: inertia and procrastination. Thus far, the Act has proven a positive force in resetting savings behavior.

Figure 2.2

Source: Citi/CREATE-Research Survey 2026

Which goals have been delivered by product, process and organizational innovations so far?



Interview Quotes

"There's no place for beta jockeys dressed up as alpha managers. Investors have learned that to their cost."

"In 2024, 11,000 people were retiring every day in the U.S. and 15,000 in Europe. This is changing investing as we have known it."

A number of asset managers have shifted up a gear to adopt the 'Buyer 2.0' model.

Latterly, end-investors have also been offered digital access to their portfolios and the necessary analytics, as a number of asset managers have shifted up a gear to adopt the 'Buyer 2.0' model. In it, clients are hungry for insights yet are still able to cover many of their investment needs in their own time without external human help.

As a part of win-win, asset managers too have benefited from their process and organizational innovations. These have delivered scale, agility and operating leverage via outsourcing of non-core activities and the use of external platforms. All these have served to contain cost pressures as competition has intensified (53%). This has happened alongside the switch to modular operations platforms (50%). Together, they have served to enhance business resilience, as markets have seesawed during frequent risk-on/risk-off cycles. They have also served to enhance trust in asset management (34%).

Finally, directly or indirectly, all types of innovations have collectively delivered three tangible benefits: improved profitability (30%), increased AuM (26%) and market-beating alpha returns (22%).

Overall, the main thrust of innovations has promoted client interests and helped the asset managers' advance towards a zero-based approach to cost management that entails progressively outsourcing non-core activities and automating the remaining processes via AI and GenAI.

Insights

Alpha is in the Eye of the Beholder

Individuals are increasingly obliged to bear the brunt of all risks in retirement planning. They have to save more, spend less, work longer and invest wisely.

The rise of solutions alpha has been a key outcome. It does not target market-beating returns, but outcomes that meet investors' specific needs and personal circumstances.

Two pieces of landmark regulation in the 2000s played a pivotal role in the rise of solutions alpha. In 2005, new financial reporting standards enjoined European pension plans to adopt mark-to-market principles in the valuation of their assets and progressive immunization of their liabilities against investment, inflation and longevity risks. That ushered in a new era of LDI in the DB space.

The aim was to have realistic pricing of assets, whilst immunizing pension portfolios over time, as return-seeking assets delivered capital growth.

This was followed by the landmark Pension Protection Act 2006 in the U.S.. It served to create an autopilot version of 401(k) with three key innovations in plan design: automatic enrolment of all eligible employees; automatic rise in their annual contribution rates over time; and a selection of default investment options, predominantly target date funds.

They link asset mix with individuals' age within a 'set-it/forget-it' glidepath that minimizes the risk of poor asset choices as well as the long-known investor foibles. Likewise, the Act also served to promote LDI in private sector DB plans in the U.S..

In these and other cases, solutions alpha targets predefined outcomes mostly via beta assets based on multi-asset classes. It cuts across style boxes and asset classes, with embedded risk tools and distinct alpha sleeves in some cases. Complexity stays under the hood. As traditional alpha has become elusive, ephemeral and expensive, solution alpha has stepped into the breach.

A U.S. asset manager

Interview Quotes

"Regulation has played a key role in putting solutions-based alpha on investors' radar."

"Zero-based cost planning can only happen incrementally, as the required business disruption can quickly hit the bottom line."

3 Blockers of Innovation

What slows things down?

Overview

This section examines:

- What factors have acted as cultural and structural barriers to innovation in recent years?
- How are AI and GenAI serving to ease the reported barriers?
- What is the rate of adoption of AI and GenAI in the industry's value chain?

"The asset industry is heavily regulated, as we are dealing with other people's retirement savings. Returns are neither guaranteed nor replicable."

An interview quote

Key Findings

Cultural Barriers

These are embedded in the management style, values and behaviors of the business. They have evolved over the years, as regulators have sought to protect a growing army of clients now enjoined to plan for a more financially secure future.

The barriers in question include:

- 'Permission' culture where staff need approval in ideas sharing
- Unhealthy tensions between product teams for resources
- 'Not invented here' syndrome, where the ideas of others are ignored
- 'Knowledge is power' syndrome, which leads to knowledge hoarding
- Fear of failure due to previous false starts.

Structural Barriers

These are highly variable and include:

- Silo working due to inevitable demarcations between asset classes and geographies
- Lack of required funding to seed new products
- Overreliance on legacy IT stacks that are not integrated
- More spent on maintaining existing operations and legacy systems than new ones
- Absence of tools that promote real-time collaboration
- Absence of a central repository in the innovation life cycle.

Role of AI and GenAI in Easing Barriers

These revolutionary technologies are acquiring dual roles: assisting the process of knowledge creation and raising process efficiency. They are:

- Assisting with the enhancement of corporate memory and minimizing key-person risk
- Acquiring IMI status
- Reinforcing scenario planning by generating synthetic data
- Generating and evaluating new ideas
- Permitting real time interpersonal collaboration across the value chain.

Adoption of AI and GenAI

Promising use cases are evident in the front, middle and back offices, ranging from high value-added activities to routine processes.

However, there is caution in the pace of adoption because:

- Corporate financial data used in training large language models has a low signal-to-noise ratio
- The high rate of 'hallucinations' in these models can portray misleading information as fact
- The core foundations of capital markets are constantly shifting, making it difficult for models to predict the future.

Core Message

For the asset industry, embracing AI-driven transformation is no longer optional but essential. It is likely to come in small steps, not giant leaps. In the absence of a playbook, the required governance guardrails are being developed via experiential learning over time.

Regulators have required a complex web of guardrails to protect end-client interests, inadvertently limiting out-of-the-box thinking.

Culture And Bureaucracy Often Act As Barriers

In a *par excellence* people business like asset management, the path of innovation is rarely smooth. Besides, by law, managers have to be overly cautious in systems and controls, since they are dealing with other people's money as fiduciaries.

Regulators have required a complex web of guardrails to protect end-client interests, inadvertently limiting out-of-the-box thinking. Reportedly, regulators have ensured that a significant proportion of asset managers' current technology-based work processes remain reliant on constant human intervention, with technology used as a supportive tool, not a direct replacement for human effort. Thus, regulation has been a mixed blessing, as we saw in Theme 4 in Section 1.

All this has given rise to two sets of blockers in innovation activities: cultural and structural. Taking them in turn (Figure 3.1, upper panel), permission culture tops the list (52%). It is a business environment where staff feel the need to seek approval from senior executives before acting, sharing ideas, or innovating. This often stems from fear of failure, excessive bureaucracy, or micromanagement, leading to slow decision-making and reduced innovation. It contrasts sharply with empowered, autonomous, and agile cultures. Fear of failure due to previous false starts is one of the reasons (38%). This has led to finger pointing in the past, resulting in a blame culture that has restricted the scope of 'white space' for staff to engage in free thinking (36%).

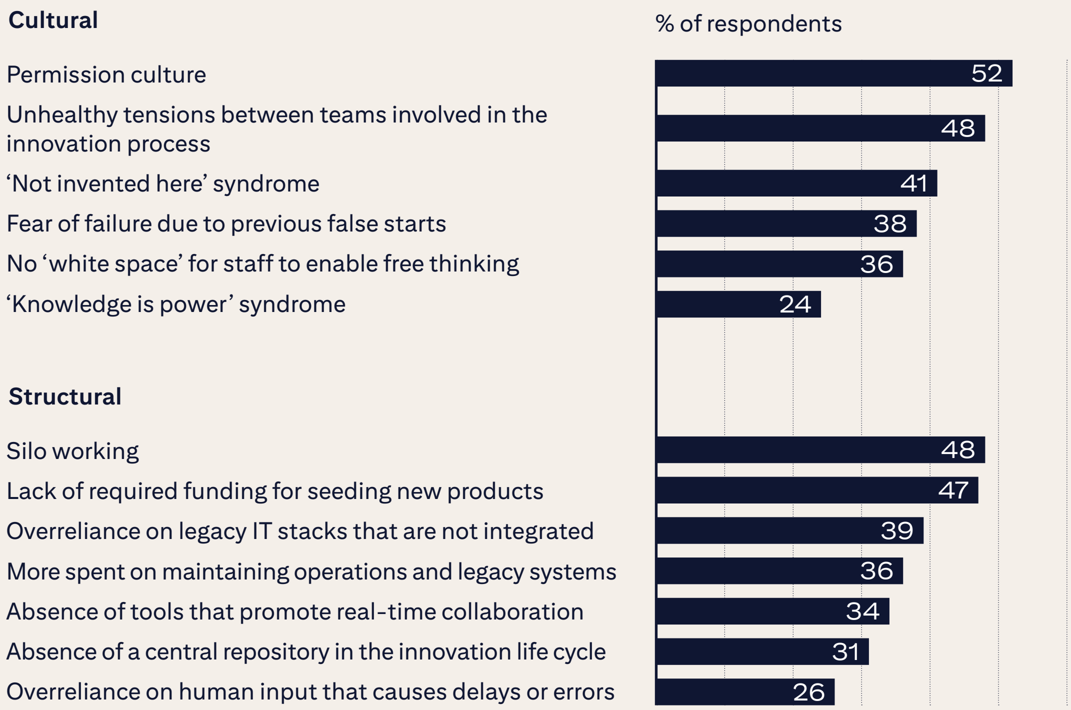
Another cultural impediment has been unhealthy tensions between product teams involved in the innovation process, as each team seeks to promote its own agenda in an environment where innovation agenda lacks clear direction and the necessary resources (48%).

Such tensions have manifested themselves in two ways. One is 'not invented here' syndrome (41%). This is perpetuated by product and functional silos, prevailing in hierarchies that create unhealthy internal rivalries.

Figure 3.1

Source: Citi/CREATE-Research Survey 2026

Which factors tend to slow things down and work against optimal innovation outcomes?



Interview Quotes

"We don't have a 'fail-fast' mentality but have to prove that things will work even before trying them."

"When resources for innovation are scarce, rivalry between product teams becomes acute."

Far more is spent on maintaining these unintegrated legacy systems than on business transformation.

The other manifestation is 'knowledge is power' syndrome (24%). It has given the staff concerned a sense of security in this age of downsizing for a leaner fitter organization that arises from partnerships in the fund ecosystem. This has slowed the process of converting individual knowledge into corporate memory essential for generating innovative ideas.

These cultural blockers are a reflection of structural ones that have also prevailed *(Figure 3.1, lower panel)*. To start with, silo working has been essential in the spirit of specialization but it has inadvertently resulted when departments or teams operate in isolation, hoarding information and prioritizing their own goals over overall business objectives (48%). Such insularity has resulted in duplicated efforts, poor communication, decreased innovation, and overreliance on human input that causes delays (26%).

It is reinforced by the absence of tools that promote real-time collaboration between teams (34%), and the absence of a central repository of progress in the innovation life cycle (31%).

Finally, on the technology front, there has been an overreliance on stand-alone legacy IT stacks supporting different asset classes (39%) and perpetuating silo mentality. Evidently, far more is spent on maintaining these unintegrated legacy systems than on business transformation (36%), thus causing a disconnect between tech spending and productivity.

Overcoming these problems has required leadership alignment, shared goals, and cross-functional collaboration. The needle is finally shifting (see Insights).

Insights

Tackling the Innovator's Dilemma

Before Covid, we faced the well-known dilemma: why rock the boat by innovating when we have a legacy book of assets earning a handsome fee?

This complacency suffered a double blow from the 2020 pandemic. Our active funds, specifically designed to do well in volatile times, were far outperformed by passives. Our biggest institutional clients headed for the exit in the belief that Covid was a Black Swan event; forcing us to act in two areas: client proximity and innovation process.

We decided that only a gold standard in client engagement could restore trust and enlist clients as innovation partners. We initiated regular client perception surveys – 'heat maps' – and focus groups.

They aimed to solicit new ideas by tapping into expertise and risk appetite, managing expectations in what can and can't be delivered when markets are moved more by politics than economics, and offering bespoke research that provided a second opinion on their asset allocation. This approach has delivered a better alignment of interest via common investment beliefs and time horizons. Some clients have even provided 'seed' capital for some of our new funds.

To ensure that such funds embody our best ideas, we have also refined our innovation process.

First, we invite staff to post their best investment ideas on the corporate intranet. Second, we put these ideas through a 'wind tunnel' to assess their intrinsic business worth. Third, we pick the chosen few to carry out a feasibility study and craft a business case. Fourth, we create prototype products and 'paper trade' them to provide 'proof of concept'. Finally, we road test them via seed capital before going public. The robustness of the process is measured as much by the number of kill-offs at each stage of the appraisal process as by successful launches, so as to weed out the 'dogs' from the 'stars.

A Swedish asset manager

Interview Quotes

"By focusing on the chosen few, former star culture conspired against enhancing and leveraging our corporate memory."

"New technology on top of old business organization gives the worst of both worlds: an expensive old organization and the status quo."

Tech Is Moving to the Heart of the Innovation Process

Although the advance towards a digital future remains incremental, the role of AI and GenAI is well recognized in generating new insights and improving the efficacy of the innovation process.

With the growing challenge from passive funds, active managers have been upping the ante on innovation and the role of tacit knowledge in it. Unlike explicit knowledge, which can be expressed in written, oral or pictorial form, tacit knowledge is personalized. It resides in individuals in the form of instincts, insights, intuitions and experiences accumulated over years.

It cannot be codified in a formal body of knowledge. Creativity is the channel through which it emerges, often as a random explosion of energy born of the desire to change the status quo. It relies on interpersonal encounters and, latterly, on collaboration with AI and GenAI, where ideas breed ideas and fresh insights emerge at each iteration (see Insights on next page). A number of benefits are expected from the use of AI and GenAI in the innovation process (Figure 3.2, upper panel). The most widely cited is the retention and enhancement of corporate memory (55%). This is defined as the accumulated body of knowledge, experience, data, and documentation that an organization accumulates over time, covering its history, decisions, and culture. It acts as a collective brain, allowing companies to learn from past successes and failures, and ensuring continuity and progress.

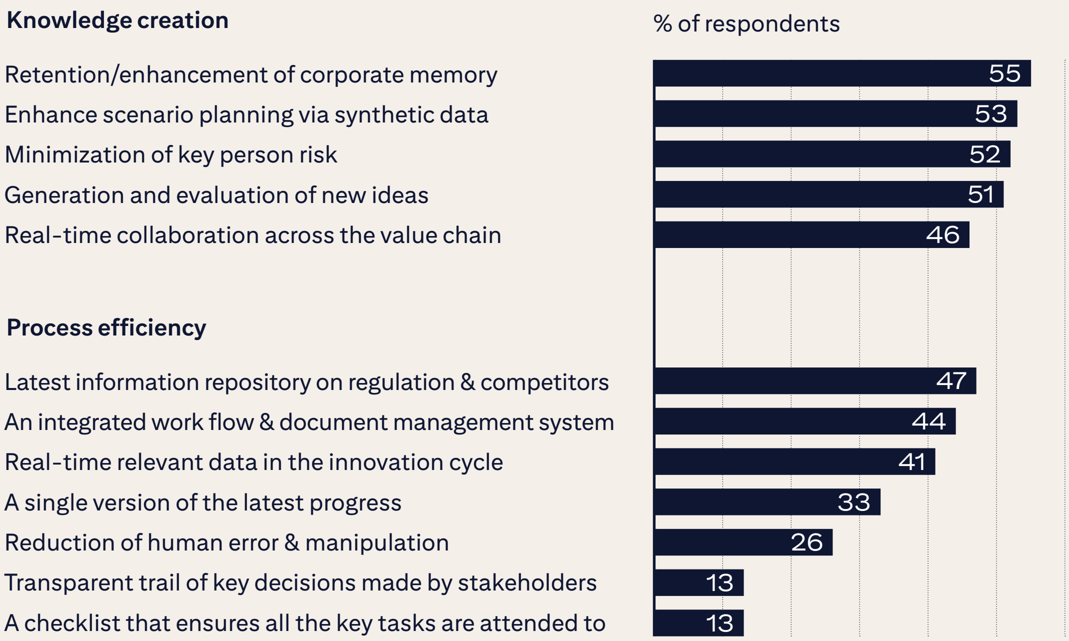
This process of continuous learning enables asset managers to generate and evaluate new ideas (51%) and promotes real-time person-to-person collaboration across the value chain (46%). It also serves to minimize key person risk, which was all too prevalent in the star culture of the past (52%).

This process of continuous learning enables asset managers to generate and evaluate new ideas and promotes real-time person-to-person collaboration across the value chain.

Figure 3.2

Source: Citi/CREATE-Research Survey 2026

In which ways can AI and GenAI help to overcome the identified blockers?



Interview Quotes

"Personal chemistry often sparks creativity and improves the efficiency of the innovation process."

"Innovation is about harnessing corporate memory by promoting an ideas-sharing culture."

Synthetic data, powered by GenAI, stands at the frontier of innovation in investment management.

Not only can AI and GenAI assist in this knowledge creation process, it also constitutes IMI status. Synthetic data, powered by GenAI, stands at the frontier of innovation in investment management (53%). It helps to overcome the problem of data scarcity, and is a catalyst for smarter, faster, and more resilient decision making. Unlike more traditional methods, such as Monte Carlo simulations, new generative techniques are better suited to modelling the complexities of real-world data and are capable of creating data in modes frequently encountered in asset management. Thus far, however, AI and GenAI are far from replacing boots-on-the-ground research, based on conversations with companies and suppliers. That aside, AI and GenAI are also seen as improving the efficiency of the innovation process in a number of respects (Figure 3.2, lower panel). It can help with the codification of institutional knowledge, which can mitigate material losses during talent transitions. It can act as a repository of the latest information on regulation, competitors, and markets (47%).

Since the success of product innovations depends as much on market environment as their intrinsic qualities, a holistic understanding is vital in timing product launches and competitor responses. That requires making data more contextual, accessible, and actionable, using advanced use cases in automation, personalization and analytics in the innovation cycle (41%).

It also needs to be augmented by an integrated workflow document management system (44%), backed by a single version of the latest progress in the innovation cycle (33%) and reduction of human error and the potential for manipulation (26%).

Even though the advance of AI and GenAI is likely to remain incremental, their potential to overcome barriers to innovation is fully recognized.

Insights

Expanding Corporate Memory Via Human–Machine Collaboration

After finding that many of our new product launches remained subscale, it was time for bold thinking. Our innovation process came under scrutiny after benchmarking against exemplar companies like Apple, 3M, and Shell. Like them, we had followed the traditional trajectory that explores new ideas, evaluates them, designs new products and takes them to market. Where they differed was how they harnessed the power of corporate memory via an effective human–machine interface in which ideas beget ideas, following the law of increasing returns in economics.

This self-sustaining positive chain reaction is fed by tacit knowledge, which is instinctive and relies on gut intuition that is hard to formalize. It is embedded into corporate memory through interpersonal collaboration on the one hand and human–AI interaction on the other. The resulting serendipity has been at the heart of many of our best product and process ideas. AI could potentially help to distinguish data from noise.

In our product innovation process, AI has been instrumental in creating synthetic data, that are now used in scenario planning stress testing, and product optimization. Synthetic data represent alternative scenarios that could have occurred. In the past, these activities were over-fitted around data and events that had actually occurred and ignored other possibilities. As a result, machine-learning models trained on them tend to 'overfit' to specific historical conditions and ignore counterfactuals that were just as likely.

We use the latest machine-learning models to create flexible, high-fidelity synthetic data in different formats by spotting deeper patterns in real datasets. This has been instrumental in modelling how real clients could behave under different market scenarios. They serve to augment human input as well as provoke fresh thinking that creates new ideas and enhances corporate memory.

A Dutch asset manager

Interview Quotes

"As traditional algos have transformed into cognitive computing, AI and GenAI can do things that were previously unimaginable."

"With the rise of AI and GenAI, data science is coming into the asset business on a scale unimaginable before."

The demarcation between traditional discretionary and systematic styles is blurring.

Caution Will Mark the Advance of AI and GenAI

For the average asset manager, the potential impact from AI, GenAI, and now agentic AI, could be transformative, cutting the equivalent of 25-40 percent off their cost base, according to the McKinsey report *How AI could reshape the asset management industry*. Unsurprisingly, promising use cases are emerging across the value chain.

In the front office, research analysts are using GenAI agents to synthesize data from earnings calls, financial reports and conferences, thus accelerating the ideas generation process. Portfolio managers are leveraging GenAI tools to refine strategies, narrow investment options, and optimize portfolio construction (see Insights on next page).

Indeed, the demarcation between traditional discretionary and systematic styles is blurring. GenAI allows discretionary managers to systematize insights and intuition, while assisting systematic managers to quantify qualitative insights. Yet, thus far, this revolutionary technology has yet to challenge in-practice research – talking to company management, suppliers, competitors, employees and more – at the heart of fundamental investing.

In the middle office, GenAI is streamlining previously manual and time-intensive risk and compliance processes, and using GenAI agents to interpret complex regulatory requirements. These virtual assistants also deliver on-demand portfolio insights and support relationship managers with real-time information tailored to individual client needs, whilst creating customized communication at scale.

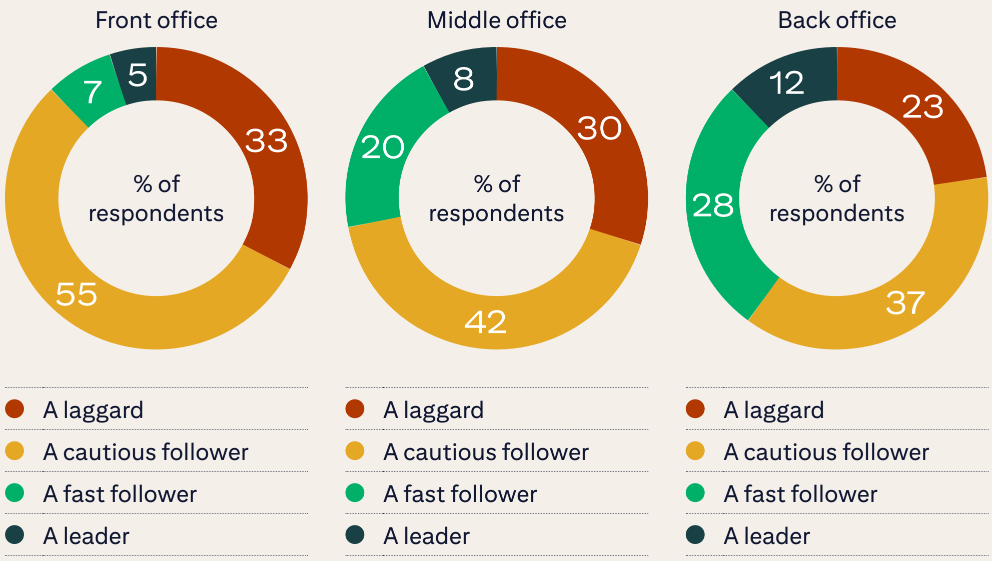
Similarly, in the back office, use cases are emerging in areas as varied as the labor-intensive trade reconciliation, investor onboarding, 'know your client', data management, client reporting, net asset value oversight, fund accounting, compliance surveillance, and data extraction.

Yet, this array of use cases does not detract from the fact that the asset industry, as a whole, is still at an early stage of adoption, as discussed in Theme 3 in Section 1. This is further corroborated by Figure 3.3. It shows that 'cautious followers' are the biggest group of adopters in front, middle and back office alike. Evidently, adoption is more advanced in back-office routine activities, which are process- and data-intensive in the extreme, lending themselves to a high degree of automation. In contrast, the advance in front office activities is far more gradual – in portfolio management, research, trading and client relations. These vital activities have hitherto constituted managers' core competency delivering maximum added value.

Figure 3.3

Source: Citi/CREATE-Research Survey 2026

How do you perceive your organization with respect to the adoption of AI and GenAI in three distinct areas currently?



Interview Quotes

"Despite the zeitgeist around AI, we are not yet sure how to create a viable strategy for its use and judge the services offered."

"AI demands business transformation, not just technology addition. But that can only happen step by step to maintain business continuity."

The core dynamics of markets are constantly shifting and large language models, which are anchored in the past, struggle to predict the future.

That is not all, however. Effective governance to manage core risks, such as data leakage, cybersecurity, and 'hallucinations', are taking a while to evolve as there are no playbooks to offer guidance. The march into the digital future remains a long journey of experiential learning, based on trial and error, in the face of three known risks.

The first is that the corporate financial data used to train the large learning models have a low signal-to-noise ratio. They do not cover the intellectual capital – a strong team, a lot of R&D, and knowledge assets – that impacts market valuations. Experienced human analysts are better at recognizing the evolving dynamics between intellectual capital and stock market process.

Yet another risk area is the high rate of 'hallucinations' in large language models. They appear to provide accurate or plausible facts but contain inaccurate or misleading information. They generate information by predicting the most likely sequence of words based on patterns in their training data with no mechanism for verifying the outputs. They are a by-product of the probabilistic nature of how these models work.

The final risk area is the reflexivity of financial markets. They are noted for being self-referential: observations alter investor behavior, and the newly discovered patterns become inputs into future market behaviors. The core dynamics of markets are constantly shifting and large language models, which are anchored in the past, struggle to predict the future when its very foundations are in a constant state of flux.

These risks do not detract from the value creation potential of AI and GenAI, but they caution against rapid adoption until the necessary governance guardrails and data improvements are in place to minimize risks.

Insights

The Arrival of Agentic AI

The next wave of GenAI is laying the groundwork for a step change: systems-based agents capable of executing complex tasks autonomously. It marks a shift from systems that rely on simple human commands to ones that understand complex goals and execute multistep tasks across different areas on users' behalf.

We have adopted use cases in two areas. One is investment, where it is used as a junior analyst to help with research by scanning vast data sets for signals, monitoring markets, and performing simulations that test hundreds of scenarios at once at unprecedented speed – from pricing changes to shifts in client behavior. The other area is sales, marketing and customer service, which can enhance the personalization of client portfolios and enhance user experience.

In both areas, autonomous agents don't have a binary on-off switch. Instead, they are under a hierarchy of human control, with the level of agent autonomy rising as one moves up the hierarchy. At the bottom level, the user makes all the decisions and the agent acts as an assistant and executes tasks set by the user. At the top level, the agent acts fully autonomously, leaving the user to monitor and override the agent in an emergency.

Our use cases operate at the lower level of autonomy, as we are also developing digital governance, following the 10-20-70 rule. That says 10% of the program's efforts should focus on algos, 20% on technology, and 70% on people and governance. The reason is that never before have humans created machines that work in ways that even their builders don't understand, and users can't control.

We have to guard existing revenue streams and business continuity in the transition phase. While we wonder if we are moving fast enough, no one believes we should go more slowly.

An Australian asset manager

Interview Quotes

"Thanks to Agentic AI, we can now know what our end-clients will do via predictive analytics before they themselves know it."

"The curse of winner-takes-all is ever present in algos. They rarely nudge investors to anything off the radar."

4 Structural Drivers

What forces are likely to be at work?

Overview

Taking a three-year forward view, this section considers two questions:

- Which factors will drive innovation in global asset management?
- What will be the sources of new ideas underpinning the innovation effort?

"Client engagement is about soliciting new ideas, managing expectations and avoiding wrong-time risk in this era of risk-on/risk-off volatility."

An interview quote

Key Findings

Innovation Drivers

These fall into two groups: one relating to changing asset industry dynamics, and one to changing capital market dynamics. Together, they are creating new opportunities that require innovation across the value chain of asset businesses.

i. Industry Dynamics

- The tokenization and fractional ownership of funds
- Retailization of private markets
- Rise of digital-enabled distribution platforms
- Convergence of traditional and alternative investments
- Rising diffusion of AI and GenAI as data challenges are ironed out
- The need to develop new revenue streams due to fee compression

ii. Capital Market Dynamics

- The switch from product to solutions
- Fallout from increased market volatility
- Rising demand for personalization and outcome-oriented funds
- Deglobalization, giving rise to regional trading and currency blocs
- Productivity-enhancing role of AI and GenAI
- Ageing populations, giving rise to new demands by seniors.

Sources of New Ideas

These are likely to emanate from outside as well as inside the business.

External sources are likely to be:

- End-clients via regular engagement
- Service providers in the fund ecosystem
- Fund distributors
- Investment consultants
- Academia.

Internal sources are likely to be:

- Investment professionals
- Sales and client relationship teams
- Product development teams
- Senior management.

Core Messages

No longer is innovation the preserve of star managers. Collaboration has become key to minimizing pain as the asset industry is going mass market and creating new opportunities and challenges.

Regulation will continue to be a mixed blessing. Democratization of private markets, tokenization, and fractional ownership of funds have required notable enabling changes in the regulatory architecture. At the same time, guardrails around investor protection are now as stringent as they can be.

As a result, the role of in-house risk and compliance teams has become invidious. They have to strike a delicate balance between innovation and client needs, and between business growth and franchise risk.

Changing Industry Dynamics Will Drive Innovation

Asset managers need to develop new revenue streams to counter the continuing rise of passive funds and market volatility.

Two sets of factors are likely to drive innovation and create new opportunities in the global asset management industry over the rest of this decade. One relates to changes occurring inside the industry and the other to evolving client needs.

Taking them in turn (Figure 4.1, upper panel), a mutually reinforcing confluence of developments is expected to drive the pace of innovation, as asset managers need to develop new revenue streams to counter the continuing rise of passive funds and market volatility (58%), as well as contain margin pressures from the compounding cost of rising business complexity (53%).

On the process side, top of the list of new opportunities are tokenization and fractional ownership (59%). Closely allied to them is the retailization of private markets (57%), the rise of digital-enabled distribution platforms (56%), and the rising adoption of AI and GenAI to beef up the enabling technology infrastructure (43%). Distribution is gaining in prominence (see Insights on next page).

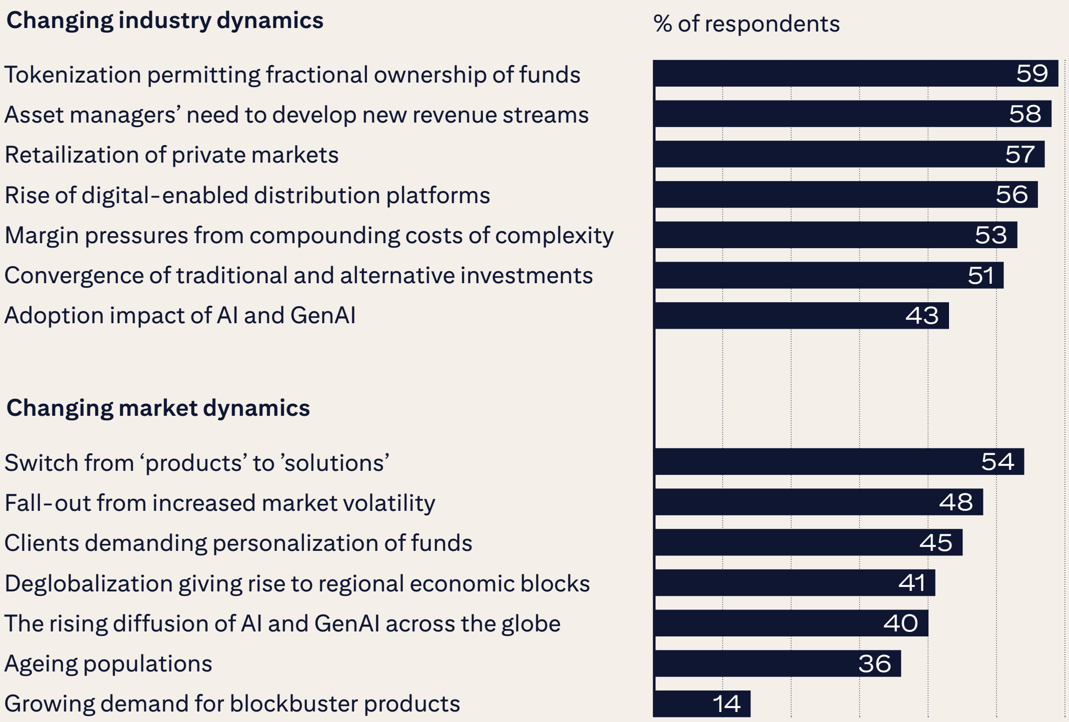
On the product side, opportunities are expected from the continuing convergence of traditional and alternative investments (51%). This convergence is evident in deal-making and partnerships across the public and private divide via innovations like semi-liquid products, evergreen funds, and public–private model portfolios. Indeed, index providers MSCI and S&P Dow Jones have just launched private market indices, as investors increasingly look to private markets to seek returns and broaden portfolio diversification.

Some of these drivers have been enabling high net worth individuals and retail clients to have access to private market assets, which were hitherto reserved for institutional investors. This is achieved by lowering entry barriers, offering

Figure 4.1

Source: Citi/CREATE-Research Survey 2026

Which factors will drive innovation in global asset management over the next three years?



Interview Quotes

"The economics of our industry are tilting ever more toward the entity that owns the customer relationship – the distributor."

"The index revolution has finally arrived in private markets with the availability of new indices."

Fund covenants in private markets are offering more effective stewardship on environmental, social and governance issues.

liquidity options, portfolio diversification and higher potential returns by opening up access to asset classes (like private equity, private debt, infrastructure and real estate).

The reason is that private markets are attracting growing companies who aim to stay private for longer. In contrast, the number of companies in the key listed markets in the West has experienced a secular decline in this century. Furthermore, fund covenants in private markets are offering more effective stewardship on environmental, social and governance issues. Finally, secondary markets are evolving to offer liquidity in periods of financial stress, making the ‘secondaries’ an asset class in their own right.

Overall, democratization of private markets is set to accelerate with tokenization, thanks to three enablers: clarity through legal frameworks like the Markets in Crypto Assets (MiCA) Regulation in Europe, technological maturation of institutional quality distributed ledger technology solutions, and a growing investor appetite for digital assets.

This industry-specific dynamic is likely to be boosted by continuing economic disruptions brought about by external megatrends that are reshaping the global economy and creating new sources of value creation, both globally and within client segments (Figure 4.1, lower panel). They include: deglobalization creating new trading and currency blocs (41%); the rising diffusion of AI and GenAI globally, creating new industries and demand (40%); and ageing populations in the key fund markets promoting retirement products (36%).

On the client side, such trends relate to the ongoing switch from products to solutions (54%), and towards outcome-oriented funds and personalization (45%). Already evident in recent years, these trends are expected to continue over the rest of this decade.

Insights

Distribution is King

There was a time when it was vital to specialize in manufacturing and deliver products with good returns, with high performance persistency over subsequent years. Distributors were lining up to offer us enviable shelf space.

As passive funds took off in the early 2000s, we envisaged a commoditization of the industry in which pricing power would shift from us to our distributors who ‘own’ the client. We started to diversify big time.

First, as market-beating returns became difficult to deliver, we moved away from our brand as a premier stock-picking house. The aim was to gather assets by offering cost-effective acceptable performance that delivered and built scale around long-established expertise in retirement savings.

Second, we invested in boosting our proprietary digital-enabled distribution capability by offering retirement products, mutual funds and brokerage services within a one-stop-shop to offer open architecture to alpha generators.

Third, our advanced distribution platform targeted newly emerging digitally savvy high net worth clients by offering tools that enhanced their financial literacy and encouraged DIY investing in traditional asset classes and new digital assets, such as stable coins and cryptocurrencies using distributed ledger technology. Investors have benefited via increased agility, flexibility, and efficiency. We have benefited via a growing client base.

Consolidation is the latest industry mantra, as scale has become essential in delivering value for money. However, for many of our competitors, the bull market of 2024-25 lifted asset values but did not lift operating leverage. Having scalable distribution as well as manufacturing has continued to power our asset base, global reach and bottom line.

A U.S. asset manager

Interview Quotes

“Luxembourg and Hong Kong have finalized laws that make them even more attractive for tokenized funds.”

“Tokenization and retailization are today’s peripherals but will most likely be tomorrow’s mainstream.”

The ideas generation pool is likely to draw from external and internal sources via a more joined-up approach.

End-Clients Are Set to Be Innovation Partners

In the 2000s, innovation used to be the preserve of a chosen few in investment or sales organizations. It focused on products more than processes and organization. However, three punishing bear markets this century have driven home a somber message: new products have neither a definable shelf-life nor replicable outcomes. Actual returns can vary markedly from expected returns. Putting blind faith in ex ante numbers may also mean buying products that may cost too much and deliver too little.

Hence, the focus of innovation has changed in two respects.

First, process and organizational innovations have received far more attention as they seek to improve productivity across the corporate value chain. That has entailed a razor-sharp focus on core competency to have a leaner and fitter operating model that works in good times and bad, and meets the needs of end-clients. Indeed, as we saw in Figure B, in the Main Findings section (p.10), process and organizational innovations are likely to be more widespread than product innovations. They will aim to target balanced revenue streams for asset managers and customized products for clients. That means improving the inherent strengths of existing products more than creating new ones. The era of blockbuster products stealing the limelight is probably over. It requires a market environment that is unlikely to be there while geopolitical risk remains high.

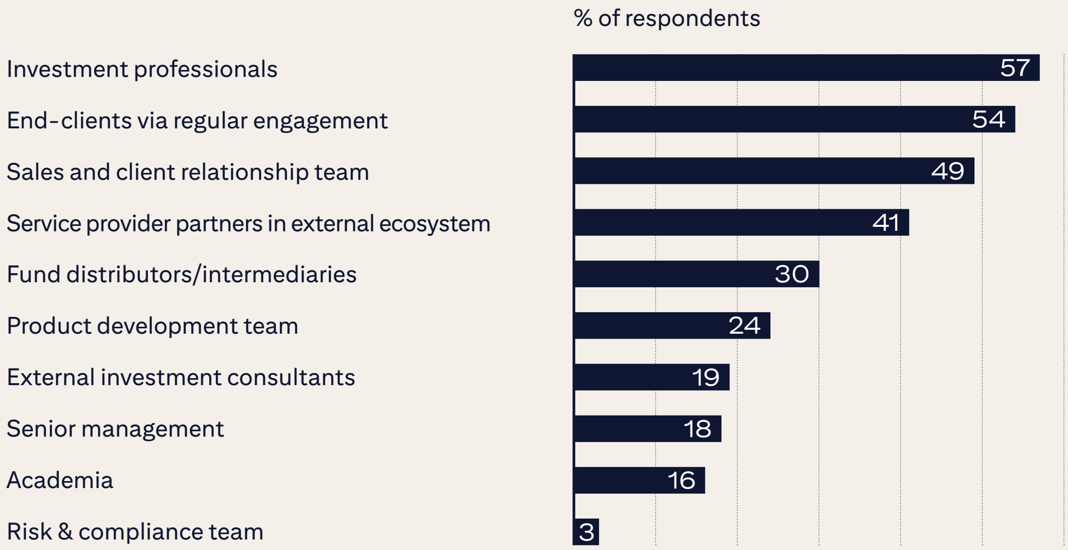
Second, innovation is now likely to be everyone's concern and everyone's responsibility (Figure 4.2). The ideas generation pool is likely to draw from external and internal sources via a more joined-up approach due to rising complexity in the operating models.

Externally, end-clients rank high (54%). In the emerging ecosystem, asset managers are forming strategic partnerships with their pension clients, and are thus progressing from distant vendors to trusted advisors in their clients' inner circle of confidants. This involves a regular exchange of ideas and insights. That apart, many asset managers now conduct client perception surveys and focus groups in order to solicit new ideas and raise the level of financial literacy that is essential for the success of solutions-driven investing.

Figure 4.2

Source: Citi/CREATE-Research Survey 2026

Which of the following are likely to be the most significant sources of new ideas in your business?



Interview Quotes

"If performance is the target, focus is the silver bullet. By taking over non-core functions, fund administrators are acting as thinking partners."

"The days of shoot-the-lights-out returns are probably over. Our clients are prioritizing safety over alpha in this extended era of turbulence."

Collaboration has become key to minimizing the pain from the transition to a mass-market industry.

What end-clients do also make a big difference in avoiding herd mentality (see Insights).

Other notable external sources of ideas are also likely to be service provider partners, who are expected to play a pivotal role (41%). This is detailed in Section 5. Specifically, fund distributors (30%) and investment consultants (19%) are other sources, given their close proximity to end-clients. Finally, academia, too, will continue to play a role, given their impartiality (16%).

This widening of the ideas generation process has also involved asset managers' own teams from different functional areas. Investment professionals are likely to remain the key source, given the breadth and depth of their market and product expertise (57%). Sales and client relationship teams are also likely to be involved, with the rising engagement of end-clients (49%). Product development teams will have a role as the best ideas are taken to the finish line (24%).

Finally, risk and compliance teams rank very low (3%). With continuing regulatory creep in all fund jurisdictions, their roles have become ever more invidious. They have to walk a fine line between innovation and client needs, between business profits and franchise risk, and between the letter and spirit of regulation. As a result, many of their colleagues' good ideas are often stillborn.

Overall, collaboration has become key to minimizing the pain from the transition to a mass-market industry where small and medium-sized asset managers have to compete against hyperscale players with capabilities right across most asset classes.

Insights

The Winds of Change are Redefining the Role of End-Clients

When central banks put a rocket under markets after the 2008 crisis, the buy-the dip mentality became entrenched. The fear of missing out became a powerful driver of behavior within all investor groups.

Retail investors in particular often act in seemingly irrational ways, owing to greed and fear cycles that have hard-wired two traits into the human psyche: short-termism and herding.

Some of our new products stayed subscale as retail end-clients continued to chase yesterday's winners.

Such clients tend to be overconfident with respect to making gains and oversensitive with respect to losses. This results in market timing that hurts investment returns and increases portfolio costs. Herding is especially prevalent at times of market stress or euphoria.

However, with solutions-driven investing, our end-clients' own role has become vital in minimizing these behavioral traits.

Investment outcomes depend upon not only the intrinsic merits of a product but also on investors' own actions at different phases of the market cycle.

Hence, end-clients are solicited for investment ideas such that they also come to have a deeper understanding of the core features of the advice-embedded products they are served, the time horizon over which their chosen products are likely to deliver their intended goals, and the role of markets in influencing the outcomes.

This way, end-clients' financial literacy is enhanced. They develop a better understanding of why investment products do not have the predictability of physical products in terms of what and when they can deliver. They come to understand the 'health warnings' that are often lost in the fine print of legal documents and think twice before following the herd.

A U.K. asset manager

Interview Quotes

"Our ideas-seeking culture is a structural source of alpha. It gives us an information edge around client needs and behaviors."

"Low financial literacy costs investors dear. For them, pro cyclical buy-high/sell-low has often been the norm."

> DB and DC plans are keen to minimize that infamous portfolio killer, the sequence of returns risk.

Innovations Will Improve the Old More Than Create the New

Over the rest of this decade, innovations are envisaged in all client segments, taking into account their unique needs and circumstances. However, one approach is likely to pervade all segments, as notoriously infrequent low-likelihood/high-impact fat-tail events have become more frequent in this century (see Insights on next page).

They are likely to remain so, since capital markets are moving to a new regime as the U.S. seeks to reshape the global architecture on trade, finance and defense. The new regime might well witness fiscal dominance, rising inflation, trade tensions and pronounced volatility.

Volatility is now a problem for pension plans, where evermore members are advancing into their golden years with ageing demographics. DB and DC plans are keen to minimize that infamous portfolio killer, the sequence of returns risk – the uncertainty that a portfolio might lose value just as the plan needs to rely on it to make pension pay-outs.

Notably, the percentage gain needed to recoup losses rises non-linearly with the size of the loss. For example, a 25% drop in portfolio value during periods of market ructions requires a recovery of 33% to restore the loss; whereas a 50% drop requires 100% recovery. Conversely, good returns in the drawdown phase can extend the longevity of a portfolio.

Asset managers are responding by developing capabilities to engage in dynamic investing by improving their scenario-planning capabilities in investment processes for all strategies. The aim is to minimize the sequence risk as markets go through different regimes. As we saw in Section 3, synthetic data created by AI and GenAI are playing a critical role in this endeavor. The resulting improvements will likely dictate the central thrust of innovation for the foreseeable future in all client segments, shown in Figure 4.3.

Innovations are likely to be more widespread in the DC segment (61%). They will seek to emulate the best practice features of their DB cousin, as the initial success of target date funds paves the way for further design improvements. To start with, the previous two distinct phases, 'to retirement' and 'through retirement', are already coalescing. In the first of these phases, the glide path will go dynamic and chase a retirement income benchmark, instead of a target retirement date. Target income will effectively become a liability benchmark, akin to that in DB plans. This will permit the deployment of LDI-type structures that will seek to ring-fence plan balances as they build up. To cap it all, deferred annuities are also coming into DC plans to cater for longevity risk.

Figure 4.3

Source: Citi/CREATE-Research Survey 2026

Which types of client will be targeted by the next wave of innovation over the next three years?

Interview Quotes

"The best practice risk management practices in DB plans are now being adopted in DC plans."

"Fat-tail events have been more frequent in this century, leaving portfolios to recover over much longer periods."

Deferred annuities are also coming into DC plans to cater for longevity risk.

In the high net worth segment, investing in private markets is now far advanced. Thus, the next generation of innovation is likely to center on dynamic multi-asset funds (64%). They blend asset classes in a single vehicle to deliver all-in-one outcome-oriented solutions via the frequent rebalancing of different asset classes and styles in response to changes in market regimes. Unlike their single-strategy peers, multi-strategy funds charge fees on the net performance of all strategies, thus reducing so-called 'netting risk'. It arises when one strategy does well and attracts performance fees while the rest perform poorly.

Moving on to the retail segment, and as mentioned in Section 2, tokenization and access to private markets are likely to continue their advance (39%). Innovation will center on improving the client experience via digital tools, extending progress made in the high net worth segment in the recent past.

Finally, innovations in the institutional space – covering DB plans, endowments, foundations and sovereign wealth funds – are likely to target better outcomes in dynamic investing in three respects: first, in improving the techniques in identifying changes in market regimes via advances in scenario planning; second, in refining the hedging tools that allow investors to stay close to their strategic benchmarks; and, finally, beefing up the governance around dynamic investing.

Insights

Risk 2.0: From Hindsight to Foresight

Improving our investment process is now our top innovation priority, in light of six fat-tail events this century so far.

They cover three savage bear markets (2000, 2008 and 2022), and three supply shocks (Covid in 2020, the war in Ukraine in 2022 and the war in Iran in 2026). Quite simply, low-likelihood/high-impact events have been all too frequent, and hugely disruptive for our institutional clients with long-dated contractual liabilities.

These clients no longer measure risk in terms of the volatility of returns or VaR. Instead, it is the maximum drawdown they are able to tolerate in volatile markets. Sizeable negative returns can leave less time for losses to recover, erode the power of compounding and shrink the asset base that reduces benefits from subsequent market recoveries.

In this respect, conventional strategic asset allocation has proven flat-footed. Not only does it leave risk and returns on the table, it can also permanently impair capital in volatile markets like the ones we've been experiencing. Hence, clients have increasingly adopted dynamic asset allocation, defined as periodic and pragmatic deviations from the SAA.

We've been responding by innovating around the discipline of scenario planning. It seeks to uncover how high impact events are reshaping markets in discontinuous ways and changing the underlying structure of the game itself.

It develops qualitatively different narratives to test how robust or fragile current strategies and positions are across a range of structurally different worlds rather than merely scaling historical shocks.

Thus, our portfolios are no longer reducible to a single probability distribution, like with old-style volatility measures. Dynamic investing seems the best and only way to develop shock absorbers for this volatile age.

A French asset manager

Interview Quotes

"Without better product design and realistic charges, DC plans will be on the same death road as DB plans."

"Frequent discontinuous events are hard to model with simple probability distributions of the sort that underpinned the old risk models."

5 Role of Fund Administrators

What criteria are used to select them?

Overview

This section addresses two questions:

- Why is a structural squeeze promoting the role of operational alpha?
- How are asset managers raising the bar when selecting third party administrators?

Operational alpha is about turning operational infrastructure into a competitive edge in creating better investor outcomes. At the heart of it are long-term outsourcing partnerships covering non-core activities with best-of-breed third-party administrators.

"We either do things differently or risk losing relevance in an unforgiving market place."

An interview quote

Key Findings

Structural Squeeze

The search for operational alpha has intensified in this decade as the asset industry has been buffeted by internal and external forces over which individual managers have little control.

i. Internal Forces

In descending order of importance, they are:

- Fee compression with the headlong rise of passive funds
- Hyper scalers hoovering up the new asset inflows
- Costs rising faster than revenues secularly
- Top-line growth driven rising markets, not organic means
- Alpha being scarce as markets remain disconnected from their fundamentals
- Fewer new products surviving despite rapid innovation.

ii. External Forces

They are:

- End-investors are becoming more demanding about value for money
- The digitally savvy among them want a friction-free superior digital experience
- Regulatory oversight has been expanded, with more stringent enforcement
- Talent pools have growing skills gaps and rising costs
- The rising frequency of cyber attacks and ransomware incidents.

Selection Criteria

These forces have conspired to raise the bar when it comes to selecting third party administrators for longer-term outsourcing partnerships.

In the process, the distinction between qualifiers and differentiators has come to the fore. As the name implies, qualifiers are the business basics that need to be in place before an administrator can even be considered in the selection process. Differentiators are the elements that give them an edge in the process.

The top five qualifiers are:

- A value for money fee structure
- Robust operating platforms
- Strong regulatory track record
- A clear data strategy
- Proven front-to-back capabilities.

Top five differentiators are:

- Disaster recovery and cyber security track record
- Tools for ESG reporting and compliance
- A shared innovation agenda with clear KPIs
- Alignment with business strategy and culture
- Depth of talent to interface with teams

Core Message

Operational alpha is becoming a means of creating a variable-cost operating model that works in good times and bad in this prolonged era of volatility when the need to stand out has never been greater for asset managers.

Performance alone is no longer the battleground. The cost to end-investors matters too.

Rise of Operational Alpha Amid A Structural Squeeze

Profit dynamics seem to have fundamentally changed in this decade with falling fees and weakening inflows on one side, and rising or inflexible costs on the other. Performance alone is no longer the battleground. The cost to end-investors matters too.

Hence, the search for operational alpha has intensified. It is about creating value by building streamlined systems and processes so as to reduce costs and enhance decision making in the face of mounting uncertainty. It refers to investment performance gains derived from superior operational efficiency, technology, and processes rather than direct investment decisions. In practice, it all boils down to an organization's ability to withstand volatility by creating an operating model that works in good times and bad (see Insights on the next page).

It involves a razor-sharp focus on core competency and outsourcing the rest of the value chain to third party administrators as part of adopting a variable-cost model where costs are directly linked to the volume of activity. The current wave of outsourcing is about developing operational excellence that promotes a stronger alignment of interests between asset managers and their end-clients.

For end-clients, it is about getting decent returns, lower charges and quality service. For managers, it is about saving costs by 30-40% via platform synergies, labor arbitrage, and cost avoidance.

In particular, institutional clients want to be satisfied that their money is placed with asset managers with a strong culture of excellence, both investment and operational. No longer do such clients solely go on past performance numbers. Asset managers are thus forced to decide what makes them unique, be that a specific asset class, geography or innovative client solution, and invest in those areas.

Figure 5.1

Source: Citi/CREATE-Research Survey 2026

What are the key drivers that orchestrate investment insights, data and technology in partnerships between asset managers and fund administrators?

Interview Quotes

"With their global presence, our fund administrator is helping us launch products in different jurisdictions with currency overlays."

"Back office is the most fertile area for automation and is already witnessing the biggest of the changes."

Asset managers are caught in the crosshairs of forces over which they have no control. At the same time, the need to stand out has never been greater.

The rest is being automated or outsourced to gain a competitive edge. This imperative has come to the fore, in the face of various internal and external drivers (Figure 5.1). Taking them in turn, fee compression tops the list (69%). It has been in secular decline due to the relentless rise of passive funds, ensuring costs are rising faster than revenue (57%). Thus, top-line growth has been driven mostly by rising markets, not organic means (46%). For example, market performance drove 70% of revenue growth in 2024, according to the Boston Consulting Group report *Reinventing Growth Amid Market Volatility* (2025).

There are a number of enduring factors behind the margin compression. First, new net inflows mostly go to hyperscale players who are not only benefiting from the foundational trend that marks the relentless rise of passive funds (48%). They also have capabilities right across the investment waterfront, backed by strong global brands. Second, fewer new products have survived despite rapid innovation (44%) and alpha generation has proven difficult due to big policy shifts that have disconnected asset prices from their fundamentals (48%). Even in the years of severe down markets, like 2020 and 2022, active investing struggled to deliver on its promise.

The causes of the reported fee compression also extend to factors that are external to the asset management industry. End-investors becoming more demanding tops the list (54%). The digitally savvy among them demand a superior friction-free digital client experience (46%). To compound the challenge, regulatory oversight has been expanded, with more stringent enforcement (34%), talent and skills gaps have emerged (28%) and the frequency of cybersecurity incidents has risen (18%).

Thus, asset managers are caught in the crosshairs of forces over which they have no control. At the same time, the need to stand out has never been greater.

Insights

Operational Alpha is About the Ability to Withstand Volatility

Rising costs and relentless margin compression have turned the spotlight on operational alpha. It is about streamlining all our systems and processes via cost reduction, risk mitigation and enhanced decision making.

It is also about staying on the right path – especially during big market ructions – while also creating products with lower volatility. It is about having improved operations that assist investment choices.

Above all, by reducing operational friction through automation and optimized workflows, operational alpha helps to lower total costs and free up resources for investment decisions. All this is in contrast to the past when the focus was on costs and risk management.

As a private equity house, our business grew rapidly in the banner year of 2021, with an increased mix of pension and high net worth limited partners, increasing complexity in investment structures.

As a result, critical data have proliferated from diverse sources, leading to slow turnaround times, increased reconciliation issues, and the alleviation of pain points.

With old style spreadsheets, operational frictions were rife with overreliance on manual input as each side letter carried unique terms, as do co-investments that make end-clients our investment partners with preferential fees structures. We now rely on AI tools to detect anomalies across data silos, match trades, speed up reconciliation, make capital calls, and issue distribution notices when they fall due.

As the regulatory environment evolves across all regions, successful fund launches now require operational alpha to gather market intelligence from multiple regions while complying with local fund rules and cost disciplines to create better investor outcomes.

A Hong Kong asset manager

Interview Quotes

“Regulators are looking at the ‘active share’ of funds to ascertain whether they justify the fees they charge.”

“A confluence of factors has conspired to force asset managers to revamp their operating model in pursuit of operational alpha.”

As their beneficial role has become obvious, third party administrators have gone from distant vendors to strategic partners over time.

The Bar Has Been Raised for Fund Administrators

As the landscape has become more competitive, asset managers have increasingly focused on their core competency and outsourced non-core activities to third party fund administrators over extended periods. In this evolving partnership, the owners of each step in the value chain have focused on their area of expertise while collaborating with partners to drive innovation in overlapping domains.

As their beneficial role has become obvious, third party administrators have gone from distant vendors to strategic partners over time. This shift is reconfiguring the investment value chain by enhancing the expertise base and creating an honest strategic dialogue around business development.

This evolution has raised the bar in one crucial respect: asset managers are now much more stringent and judicious in their due diligence when selecting outsourcing partners for longer-term collaborative relationships. Hence, when selecting fund administrators, they are drawing a distinction between qualifiers and differentiators.

As the name implies, qualifiers are the business basics that need to be in place before a potential administrator can be considered in the selection process. Differentiators are the elements that give them an edge over others. Both are covered in Figure 5.2.

Taking them in turn, a value-for-money fee structure tops the list of qualifiers (62%). The legacy value chain is hard to break up and semi-externalize to an outside service provider unless there are compelling bottom-line benefits in store.

Figure 5.2

Source: Citi/CREATE-Research Survey 2026

What criteria are being used by your business to select fund administrators in the evolving ecosystem?

Interview Quotes

"A clear strategy to enhance data analytics and generate actionable insights is a must."

"Our clients want fewer operational platforms using state-of-the-art technology that also provides quality assurance."

Thus far, outsourcing has contributed towards a number of benefits.

That means ensuring that the provider has two sets of baseline elements in place. One is business basics: robust operating platforms (54%), proven front-to-back capabilities (42%), and high-quality risk and compliance teams (40%).

The other set covers other operational attributes: a credible data strategy and access to key external analytics platforms (43%), capabilities in Open APIs and interoperability (38%), and high Net Promoter Score (27%).

As competition amongst fund administrators intensified in the last decade, they were converging on similar standards for costs, reliability and service. These elements are no longer differentiators in the selection process. In this decade, differentiators fall into two sets (Figure 5.2, lower panel).

One covers best in class capabilities in various areas: disaster recovery and cybersecurity (56%), ESG reporting and compliance (53%), and ongoing investment in AI and automation (32%).

The second set covers innovation: a shared innovation agenda with clear KPIs and governance (50%), history of embracing innovation (41%), alignment with asset managers' business strategy and culture (43%), and deep talent pool to interface with your teams (41%).

Thus far, outsourcing has contributed towards delivering a number of benefits. These include: a better market position in the face of the rising popularity of passive funds; access to new client segment; better client experience; improved alpha generation; a value-for-money fee model; more impactful innovation; faster time to market; and higher efficiencies due to access to state-of-the-art technology.

These benefits are seen part of a more holistic re-engineering of the business (see Insights).

Insights

Creating a New Future

The recent existential travails of the asset industry have forced us to re-engineer our business, instead of tinkering at the edges.

We have extended our back-office outsourcing to parts of the middle and front offices as well.

We have also negotiated space on three digital distribution platforms to penetrate those high net worth clients and regions that are expected to be the main growth points over the rest of this decade.

Finally, we have closed many subscale funds and focused on our winning products.

All these physical changes have been necessary, but insufficient. In themselves, they are not the proverbial magic bullet. There is nothing inherent in them that guarantees success. In addition, success requires new ways of thinking as much as new ways of working. Designing a new operating model for the new age is one thing, implementation is quite another. It requires mindset shifts that have required three sets of actions.

First leaders have been enjoined to up the ante, craft a credible vision for the business, get emotional buy-in from all movers and shakers, be first among equals, motivate staff, and deliver results.

Second, maximizing client wellbeing is at the heart of the business. Client perception surveys and focus groups are used to elicit feedback, understand risk tolerances and manage expectations. The aim has been to ensure that clients are sold products that match their risk profile and return goals.

Third, AI and GenAI are no longer seen as support devices but as strategic tools of value creation by helping to deliver innovations that can transform the business.

Finally, the old committee culture and silo working have been replaced by individual accountability and greater teamworking. The incentive systems have behavioral as well as financial metrics.

A German asset manager

Interview Quotes

"You need innovators' DNA – always asking 'Why? Why? Why?' Our inquisitive culture is central to our business strategy."

"Business transformation is as much about leadership and culture as about technology. It means constantly challenging the status quo."

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