CONVERSATIONS

What Will Differentiate the Asset Management Winners of Tomorrow?

From the rise of private markets to the proliferation of artificial intelligence (AI), the asset management landscape is changing quickly. How can managers stay relevant and competitive in the decade ahead? Martin Horne weighs in.

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1. Possibly the most notable trend in asset management in recent years has been the rise of private assets. Can you talk about the interaction between public and private assets and the actions that asset managers need to be taking today to remain relevant in five or 10 years?

Horne: The growth in private assets in recent years is reshaping the industry to an extent. It's driven an endless number of acquisitions in the asset management space, especially for managers playing catch-up, and has inspired many others to build their origination networks and develop new products, including for the wealth channel, to capitalize on this growth.

What I think is less of a focus, and perhaps this will change soon, is that **private assets—like any assets—will go through cycles**. Different strategies will go in and out of vogue and performance will vary over time. It's very possible that parts of the private markets are overheated today and that may result in some pain—but that's a healthy part of the natural evolution of capital markets.

What managers need to do today if they want to win in the future is not become overly reliant on any given product or strategy. At Barings, for instance, we're increasingly viewing the world of credit as just that, credit—rather than drawing an artificial line of demarcation between public and private credit. The reality is that the **lines are blurring between traditional public and private markets**. Yes, there are still differences in things like documentation and issue sizes, but even those are converging to an extent. Importantly, the same underlying bottom-up, fundamental credit underwriting and analysis is needed whether you're analyzing a broadly syndicated loan or a directly originated one.

Further to that, we're seeing clients start to think about the world this way. They want their managers to be able to decipher relative value between public and private markets—and in some cases, manage allocations between the two. To do this effectively, a manager needs **size and scale across the liquidity spectrum**. It's hard to tell if direct lending offers relative value if all you do is direct lending.

We think the so-called winners of tomorrow will be flexible, able to offer clients access to strategies that solve their problems across the liquidity spectrum, and in a position to offer what in some cases may be unique assets.

2. Traditionally, asset managers have focused on selling products. More recently, there has been a shift toward providing solutions. Is this a preview of where markets are heading?

Horne: I think we can all agree that "solutions" is an overused term, but it may be the best one we've got to describe what the most impactful managers are delivering for their clients today. There's no question that a "one size fits all" approach no longer makes sense—if it ever did.

Today, when my colleagues and I walk into a meeting with a client or a prospective client, it's not to try to sell them a singular product or fund. **Job #1 is listening**. What is their challenge? What are they trying to solve for? What returns are they seeking? What risk parameters need to be considered? It's a massive puzzle and only when you start to understand that can you even begin to think about what funds or products may be appropriate.

If we get more specific and think about this in terms of public and private assets, once we understand the problem, we can begin to propose solutions, but the two markets provide different challenges to get to a favorable end result.

To use an analogy a colleague provided, purchasing public assets is akin to going to the supermarket with a recipe in-hand. There are different products, different variations, different flavors—but we basically know what's on the shelves, so we can be pretty confident that we'll find the ingredients we need to make our recipe. In other words, the investment universe is more or less known.

Sourcing on the private side, that's much less certain. It may be more akin to going to a farmer's market. It's not always clear what will be available for sale on any particular day, and it changes over time. You can go with a recipe in mind but you need to be willing to substitute Swiss chard for kale if the former isn't available. In other words, you need to be flexible to get to an end result that you're happy with.

There are three conclusions here as it relates to succeeding in private markets:

1. **The teams managing and originating different private asset classes within a firm need to collaborate closely**. For instance, the team originating middle market direct loans needs to regularly speak with the teams responsible for infrastructure debt or real estate debt, as those asset classes may be the ones currently "on the shelves" and able to solve for a client's particular challenge.
2. **Origination teams need to be flexible.** When evaluating incoming deals, originators need to understand that while a certain transaction may not fit their group's unique requirements, it may be a fit somewhere else in the firm for a client seeking exactly those attributes.
3. **Having a broad set of capabilities becomes a massive advantage.** Given the nature of private markets and the needed flexibility described above, the broader a manager's reach and origination across the full spectrum of private markets, the more likely they will be able to provide optimal solutions for their clients.

"In our experience, business models that foster an alignment of interests between the manager and the client tend to be the most successful ones over time."

At Barings, that's where having a global network of origination professionals and platforms helps us, allowing us to take that customization to the next level, source bespoke assets, and truly provide a solution.

In summary, the days of "product pushing" are gone for any manager that wishes to be a leader in the future. Rather, success will be driven by building a business that can effectively respond to the challenges investors are facing and deliver true solutions.

3. How do ownership models play a role in asset managers' ability to serve clients—and how might this change going forward?

Horne: There is no one set business or ownership model that represents the only way to succeed in asset management. Different managers can get there in different ways. Perhaps the way to think about what will drive the success of tomorrow's asset management firms is to look at the attributes of their ownership models and how those align with client needs.

For example, at Barings, our view is that having a longer time horizon and focusing on building trusted partnerships that stand the test of time are key tenets of success. In our experience, clients are looking for partners they can build relationships with over time, who they can grow with, and who have a deep understanding of what they are trying to solve for.

Another thing that jumps out is alignment. In our experience, **business models that foster an alignment of interests** between the manager and the client tend to be the most successful ones over time.

As I said, I think there are probably different ways to get there. For us, at Barings, we actually view our ownership model—we are a 100% owned subsidiary of MassMutual—as being our **strategic advantage**.

Being owned by a mutual company that has been in existence since the 1800's naturally helps us to think and plan for the long term. This model also allows for a **virtuous cycle or "flywheel effect"** by which investments from our parent company ultimately lead to additional opportunities for them and our other clients. For example, MassMutual often seeds new investment strategies, or supports us in the build-out of new origination capabilities—and these efforts then come full circle to ultimately benefit them and our other clients in the form of new or different investment opportunities that then give them a competitive advantage by bolstering their ability to grow their own books of business.

Similarly, with our parent company invested in Barings strategies alongside our other clients, there is an element of "eating our own cooking." In other words, the investments our teams are choosing or that our origination professionals are sourcing are the same ones that our parent company is investing in. The alignment of interests is very real and tangible in that way and forms a key cornerstone of the long-term partnerships I referenced earlier.

4. In a world that is changing so quickly via technology and other means, are there any 'rules of thumb' that managers should keep in mind if they want to succeed long term?

Horne: There are a few key tenets that our leadership team at Barings keeps in mind as we navigate the present and try to set the business up well to serve our clients in the future.

First, **you need humility**. If any manager sits in front of you and says they know exactly how the next 10 years will play out, I might suggest you be a bit suspicious. None of us know how AI, for instance, will ultimately affect the business. Do we have teams working on it, trying to innovate and stay ahead of the curve? Of course, we do. But that's table stakes these days. We are all learning but having the confidence and humility to say that you don't know all the answers—I believe those attributes will become even more valuable in the future.

Second, and much related to the prior, **you need to be adaptable**. The only thing we know about what will transpire over the coming 10 years is that we will need to change. The market opportunity will change. Clients' needs and demands will change. What our own people expect or prefer will even change. It feels like change is happening more rapidly in this industry than it did earlier in my career, and I suspect that pace of change will only increase. As a result, the reality is that we all need to get more comfortable being uncomfortable.

Finally, I'd say that **teamwork, partnership and integrity** are things that (I hope) will never go out of style. What we invest in may change, exactly how we invest may change, but working together, and doing what we say we're going to do I think will stand the test of time. That's how we're building and growing the business here at Barings and I'm optimistic that 10 years down the line, whether it's me or the next generation of leadership, we'll be in a great position to continue delivering value to our clients every day.

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