SUTHERLAND®

# The **GREAT** Compression

**From Cost Cutting to Workflow Redesign.**
**Rethinking Margin Pressure in Asset Management**

Without a fundamental redesign of how research and operations are delivered, cost pressures will continue to outpace efficiency gains, compressing margins even as assets grow.

# Executive Summary

The asset management industry is entering a period of structural change, where traditional drivers of profitability are becoming less effective. While AUM continues to grow, revenue growth is becoming increasingly market-driven rather than flow-driven, reducing predictability and weakening revenue yield. At the same time, firms face rising costs across data, technology, and talent, while fragmented workflows and integration complexity limit the realization of efficiency gains from technology investments.

## The New Economics of Asset Management

Asset managers are facing simultaneous pressure on fees, costs, and competition. Structural shifts in flows, operating expenses, and technology adoption are forcing a rethink of how investment research and operations are produced and scaled.

### Key Takeaways

**AUM growth is no longer translating into proportional revenue growth**, as fee compression and passive flows reduce revenue per unit of assets.

**Revenue growth is becoming increasingly market-driven,** making it more volatile and less controllable than stable net inflows.

**Cost structures are becoming more inflexible,** with rising spend on data, technology, and specialized talent limiting the effectiveness of traditional cost-cutting levers.

**Technology investments are not consistently delivering operating leverage,** as fragmented workflows and layered systems absorb potential efficiency gains.

**The next phase of efficiency will depend on workflow redesign,** integrating data, technology, and operations into scalable, decision-driven operating models.

# I. AUM Growth Without Margin Expansion

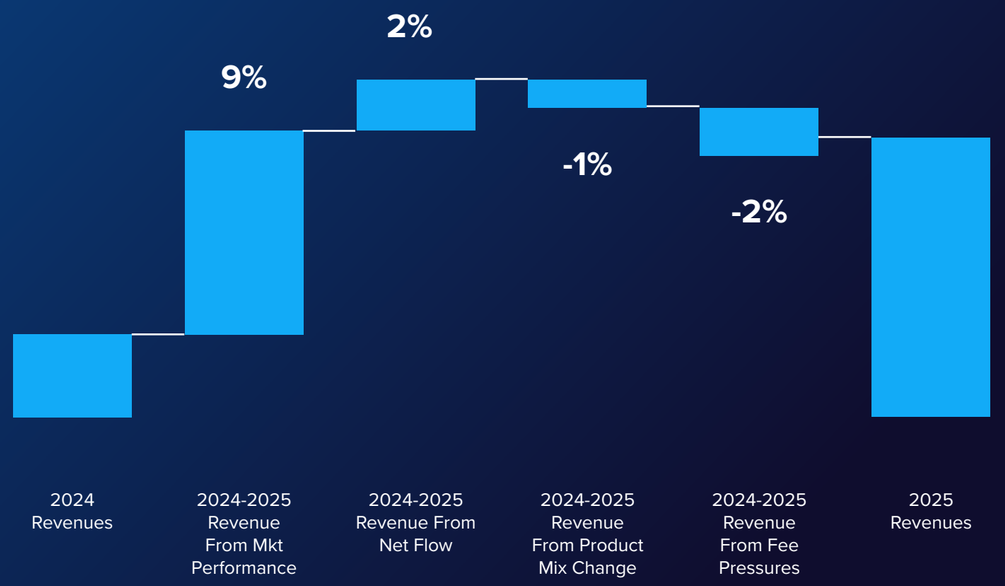
Global assets under management (AUM) have expanded significantly over the past decade, yet this scale has not translated into proportional profitability. The industry faces a "**profitability paradox**," where rising AUM masks weakening operating leverage and structurally compressed margins.

Global AUM grew from ~$128T in 2024 to **~$150T** in 2025 (BCG), largely driven by market appreciation rather than stable net inflows.

**This marks a structural shift: asset managers are scaling in size, but not proportionally in revenue.**

**Figure 1:** Limited Role of Net Inflows in AUM Growth

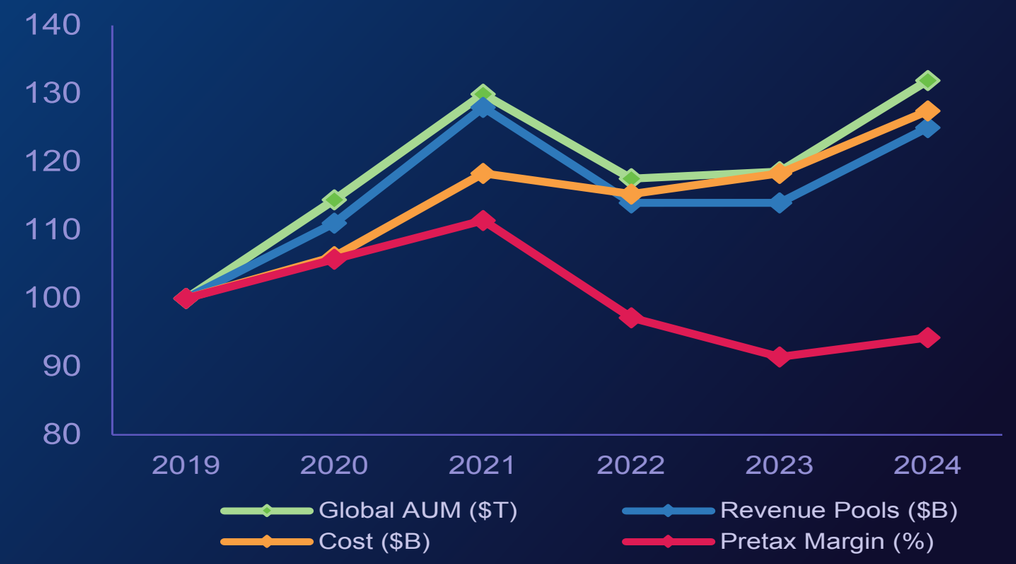
**Revenue Growth Is Increasingly Market-Driven**




Source: McKinsey

**Figure 2:** Reducing Yield on Revenue

**More Assets, Less Profitability**




Source: BCG

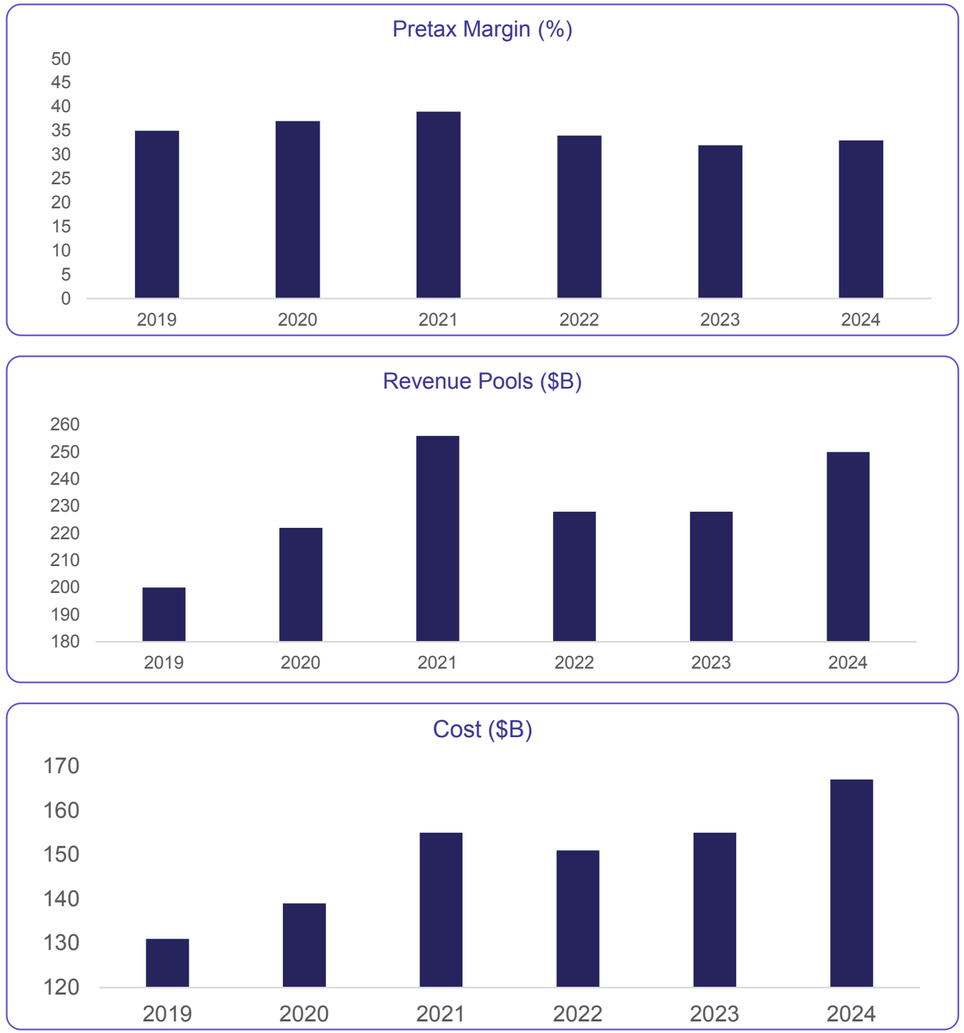
Nearly **80%** of revenue growth in 2025 was market-driven (BCG), increasing dependence on volatile external market performance

As a result, rising AUM is not translating into proportional fee income, weakening the link between scale and revenue growth (Figure 2)

Despite record AUM levels, pretax operating margins remain flat (McKinsey), while profit per AUM has declined **~19%** since 2018 and is expected to compress further through 2030 (PwC)

**Figure 3:** Profitability Remains Muted

**Growing Scale Has Yet to Deliver Proportional Profitability**




Source: McKinsey

# II. Revenue Yield Compression and Shift in Capital Flows

Investor behavior is reshaping the revenue model of asset management, reducing pricing power and compressing revenue per unit of AUM.

Active management fees have declined significantly over the past decade, compressing industry fee levels *(McKinsey, BCG)*

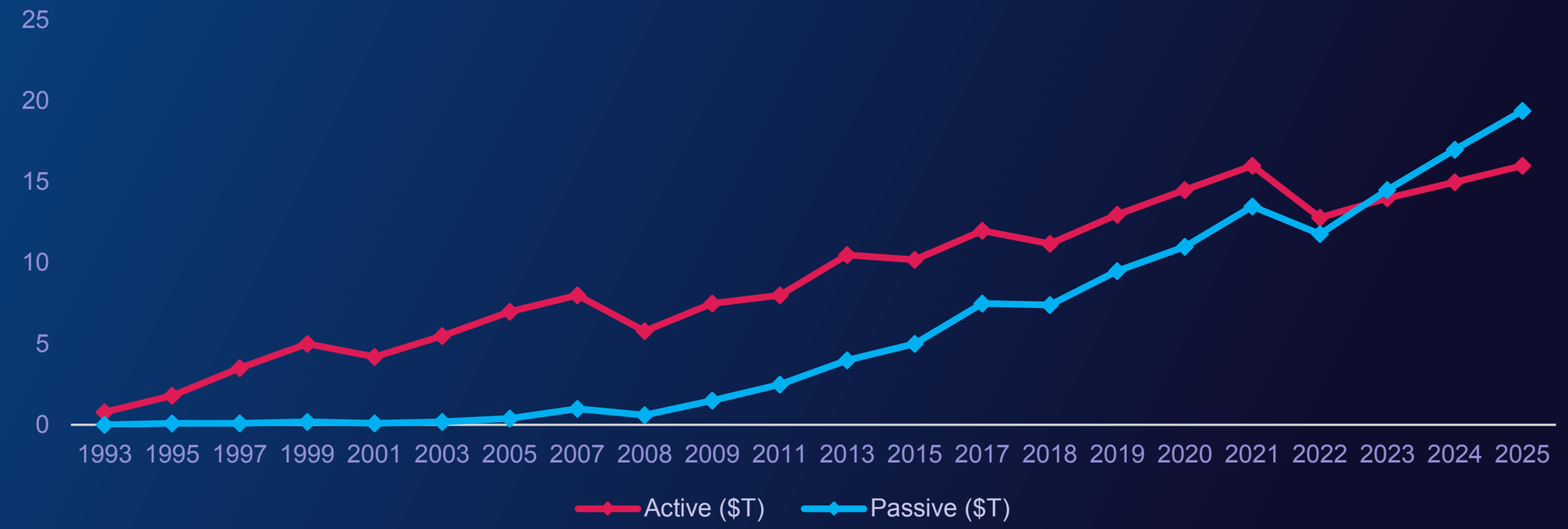
Passive funds now represent the majority of U.S. equity assets, accelerating the shift toward lower-cost strategies *(Morningstar)*

Alternatives continue to attract significant capital (~$500B+ annually), but come with higher operational complexity and differentiation pressures *(BCG)*

This creates a structural shift: firms must deliver alpha at a lower fee base while managing more complex, resource-intensive strategies, driving a decline in revenue per unit of AUM.

**Figure 4:** The Growing % of Passively Managed Funds

**Passive Continues to Separate from Active**




Source: Morningstar

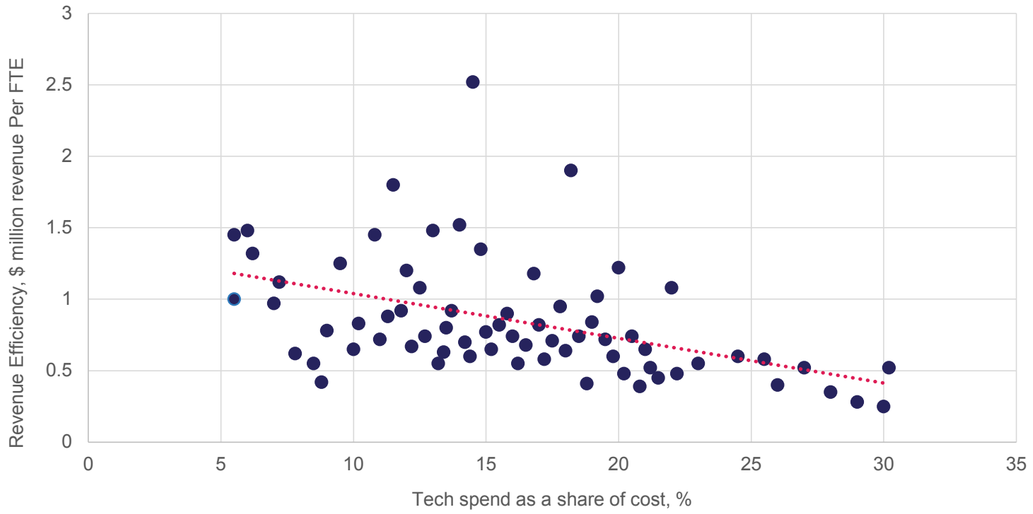
# III. Rising Cost Base Across the Value Chain

At the same time, the cost base across asset management is expanding, driven by increasing complexity in data, technology, talent, and operational infrastructure.

- Industry costs continue to rise, with spending growing across data, technology, and specialized talent as firms invest to remain competitive (BCG, McKinsey)
- Market data costs exceed $40B annually (Burton-Taylor), while firms face additional expense from integrating, cleaning, governing, and consuming increasingly fragmented datasets
- Technology investment is accelerating, with asset management technology spend **growing at ~8–9% CAGR** (McKinsey), as firms layer AI, analytics, and automation capabilities onto existing systems
- However, higher spending is not consistently translating into proportional efficiency gains. **McKinsey analysis shows a weak, and in some cases negative, relationship between technology spend and revenue efficiency,** highlighting that incremental investment alone does not create operating leverage

**Figure 5:** The Struggle to Fully Realize AI ROI

**Higher Technology Spend Is Not Translating into Greater Revenue Efficiency**




Source: McKinsey

This creates a structural double pressure: declining revenue per unit of AUM and rising cost per unit of research, compressing margins even as assets grow.

However, while firms are investing in new tools and capabilities, many are still navigating how to integrate them effectively without disrupting their core investment processes, limiting the impact on cost and efficiency.

# When Margin Pressure Becomes an Operating Problem

## The Key Challenges for Fund Managers

Margin pressure is now translating into operating challenges, forcing firms to rethink how they scale research, deploy technology, and sustain differentiated performance.

### I. Limited Control Over Revenue Growth

With revenue growth increasingly tied to **volatile market performance** rather than **stable inflows,** senior investment teams are under greater pressure to strengthen market-facing activity, investor engagement, and differentiated insights to **support capital raising and client retention.**

Passive benchmarks and sustained fee compression have **weakened pricing power,** making it harder for active managers to offset pressure through differentiation alone.

Alternatives provide higher-margin opportunities, but longer deployment cycles, operational complexity, and scalability constraints limit their ability to fully offset declining fee yields.

Asset managers are operating in an environment where revenue is less predictable, less controllable, and harder to scale, limiting their ability to offset rising costs through growth

## II. Cost Structures Are Less Flexible

**Reducing headcount increasingly impacts core capabilities,** with lower analyst capacity directly affecting research coverage, responsiveness, and depth of insight.

**Traditional optimization levers** such as vendor consolidation have already been widely pursued, leaving limited room for incremental savings without operational trade-offs.

**Technology, data, and AI investments are becoming essential** rather than discretionary, increasing the proportion of fixed and semi-fixed costs across the operating model.

Firms are increasingly constrained in their ability to reduce costs without impacting capability, limiting the effectiveness of traditional cost-cutting levers.

## III. Efficiency Gains Are Not Keeping Pace

Automation is improving output and speed across research workflows, but has not materially reduced underlying complexity or manual effort.

Layering new tools onto fragmented systems often **increases operational complexity,** limiting the ability of technology investments to generate true operating leverage.

As a result, efficiency gains are increasingly absorbed by rising complexity, rather than translating into sustained improvements in cost or margins.

# Why the Winners Are Redesigning Workflows

Although integrating data, technology, and workflows across the investment lifecycle remains operationally complex, leading firms are increasingly demonstrating measurable gains in productivity, scalability, and operating efficiency.

## Industry Examples

1 2 3 4

**BlackRock (Aladdin):**

Embedded AI across investment and operational workflows, scaling integrated infrastructure supporting ~$25T in assets.

**JPMorgan Chase:**

Applied AI across servicing and operations, reducing certain servicing costs by ~30% while improving employee productivity.

**Jupiter Asset Management:**

Integrated AI into research workflows, saving employees ~42 minutes per day and improving productivity by ~16%.

**UBS Wealth Management:**

Expanded AI across advisor workflows, generating over 1 million AI interactions monthly while retiring 1,150+ legacy applications.

These examples reflect a broader industry shift: competitive advantage is increasingly being driven by integrated, workflow-led operating models rather than standalone technology deployments.

## From Technology Adoption to Operational Integration

The challenge for most firms is no longer access to data or technology, but integrating them effectively across fragmented research and operational environments.

- **Workflow transformation requires operational integration,** particularly across high-volume processes such as earnings analysis, financial data extraction, and company monitoring.
- **Technology investments often improve output without reducing complexity,** as tools are layered onto existing workflows rather than embedded into them.
- **The largest inefficiencies remain in the "middle layer" between raw data and final outputs,** where workflows continue to be fragmented, manual, and analyst-dependent.
- **Addressing this increasingly requires a specialized operating partner** capable of combining domain expertise, workflow integration, data management, and scalable execution to translate technology investments into measurable operating leverage.

This shifts the focus from deploying individual tools to building integrated operating models that improve productivity, reduce manual effort, and scale research efficiently.

## Summary:
## The New Operating Playbook

The next phase of margin pressure in asset management is unlikely to come from one big disruption, it will come from the steady breakdown of the traditional economics of the industry. AUM will continue to grow, but not all growth will translate into stable revenue, especially as fee compression and passive flows continue to reshape the market. At the same time, firms will keep investing heavily in data, technology, and infrastructure, even as the returns on those investments become harder to realize.

In that environment, the firms that outperform are likely to be those that rethink how research and operations actually work, reducing manual effort, integrating fragmented workflows, and turning data and technology investments into scalable productivity and better decision-making.

# AI Intelligence for the Investment Lifecycle

Unify research, valuation, ESG analysis, deal appraisal, and portfolio monitoring across public and private markets. Purpose-built AI platforms help investment teams move from fragmented information to faster, more defensible decisions.

**Public Markets**

- Sutherland AI ModelBot
- Suther;and Earnings Bot
- Sutherland PvtPulse

**Private Markets**

- Sutherland Pulse360
- Sutherland DealIQ
- Sutherland Govern

## Empowering every role with AI-driven intelligence and workflows designed for how investment teams work.

**Portfolio Managers**
Monitor performance, uncover risk, and identify opportunities across portfolios.

**Research Analysts**
Accelerate research and generate deeper insights with greater speed and confidence.

**Deal Teams**
Streamline deal sourcing due diligence, and valuation from start to finish.

**ESG Teams**
Evaluate ESG factors and sustainability risks with greater claritv and consistency.

**Strategy Teams**
Develop strategies, run scenarios, and validate assumptions with confidence.

**Advisory Teams**
Deliver stronger recommendations and better outcomes for clients.

# How Sutherland can help

Sutherland helps asset managers address structural margin pressure by improving revenue outcomes, reducing operational complexity, and maximizing ROI on data and technology investments. Sutherland Pulse360 strengthens market-facing capabilities through benchmarking, competitive intelligence, and strategic insights, while Sutherland DealIQ, Sutherland PvtPulse, and Sutherland AI ModelBot enhance investment evaluation, valuation precision, and financial modeling to support stronger alpha generation and decision-making. On the cost side, EarningsBot and AI ModelBot automate high-volume research workflows, while integrated data processing capabilities—including annotation, redaction, and synthetic data generation–help simplify fragmented data environments, improve scalability, and increase utilization of expensive data assets. Sutherland also enables firms to measure and track ROI on data and AI investments, ensuring technology spend translates into actionable outcomes and operating leverage.

Sutherland is an AI-driven business transformation partner to enterprises, including several Fortune 500 clients. We design, run, and automate business operations at scale, helping clients improve efficiency, strengthen customer experiences, and deliver measurable outcomes.

Most companies either build AI-led capabilities or run operations. Sutherland does both. We run complex, mission-critical processes while engineering the AI-led solutions that sit within them. This closed loop helps clients move beyond AI pilots to reliable, governed outcomes that improve and scale over time.

With deep operational expertise, advanced products, platforms, and engineering, we help clients modernize operations and build future-ready businesses.

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driving outcomes.

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