



# ASSET AND WEALTH MANAGERS: STRATEGIC MARKET UPDATE

2020 IN REVIEW: THE BEGINNING OF A SIGNIFICANT  
CONSOLIDATION CYCLE

FEBRUARY 2021

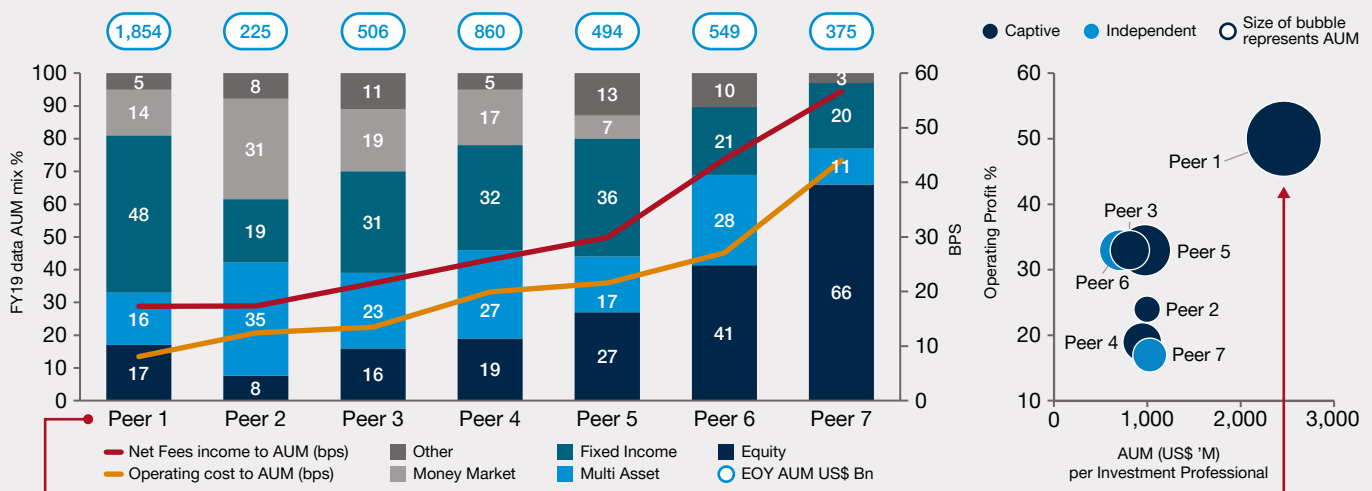
## Consolidation firmly takes hold as scale takes centre stage

Asset and wealth managers have entered 2021 after a stressful year dealing with COVID-19's many shocks and aftereffects. As executives responded to significant market disruptions, an underlying industry theme around building assets under management (AUM) scale through partnerships and M&A activity took a firm hold. Firms looked to grow AUM quickly by sealing new partnerships and exploring M&A options. We observed a flurry of transactions and restructurings in the sector, with several large transactions announced. Asset and wealth managers accelerated their focus towards defining and moving towards a new target operating model, one where scale ambitions plays a central role.

Initially, 2020 saw a sharp contraction to net asset values (NAV) followed by a pronounced rebound as investors rotated their holdings. Being able to offer clients a broader set of products meant that larger asset managers generally fared better than smaller competitors and benefited from higher net inflows. Products with environmental, social and governance (ESG) emphasis added momentum with the 'S' for Social gaining prominence, as investors factored COVID implications into their investment decision-making.

**Figure 1: AUM mix across seven European asset managers and respective operating profit percentage**

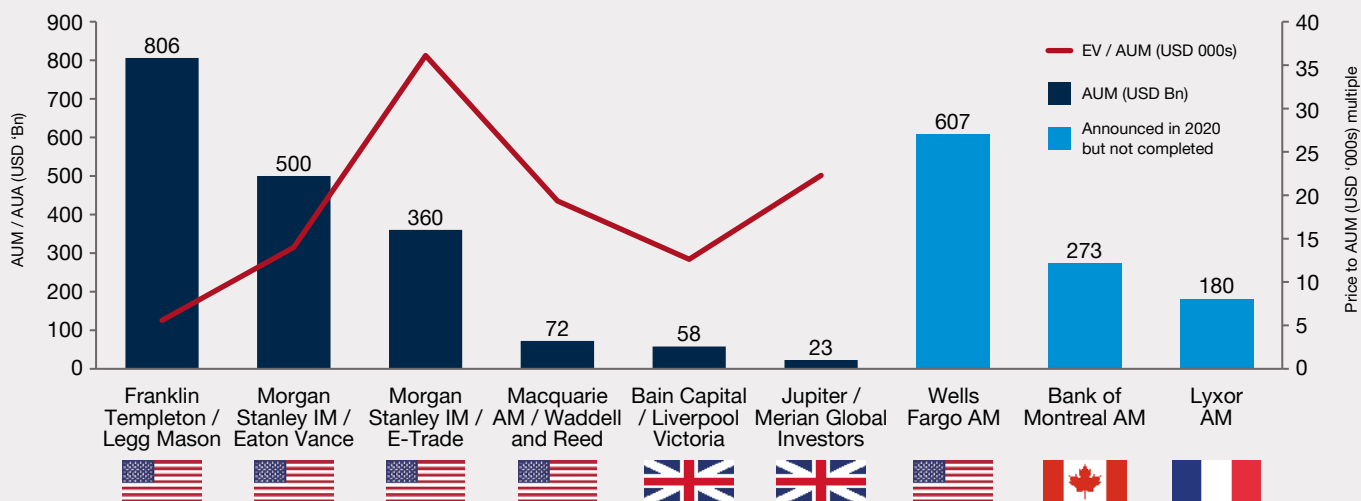
Our analysis of seven peers suggests whilst Asset mix remains important, scale is the key driver to operating profitability



## M&A transactions in 2020 with varying multiples on AUM

A number of large transactions either launched or closed in 2020 across Europe and North America. Q1 and Q4 experienced the most transaction activity, with Q2 and Q3 being devoted to post-COVID planning.

**Figure 2: AUM and EV / AUM multiple for a sample of M&A deals in 2020**



Our analysis of a sample of deals in FY20 (Figure 2) suggests EV multiple on AUM/AUM vary depending on nature of activities performed by target. Firms with a primarily brokerage activity command the highest multiple.

## Key drivers that will shape M&A activity in 2021 and beyond

We expect the consolidation cycle which commenced in 2020 to continue into 2021 and beyond. A number of structural drivers will continue to support this trend.

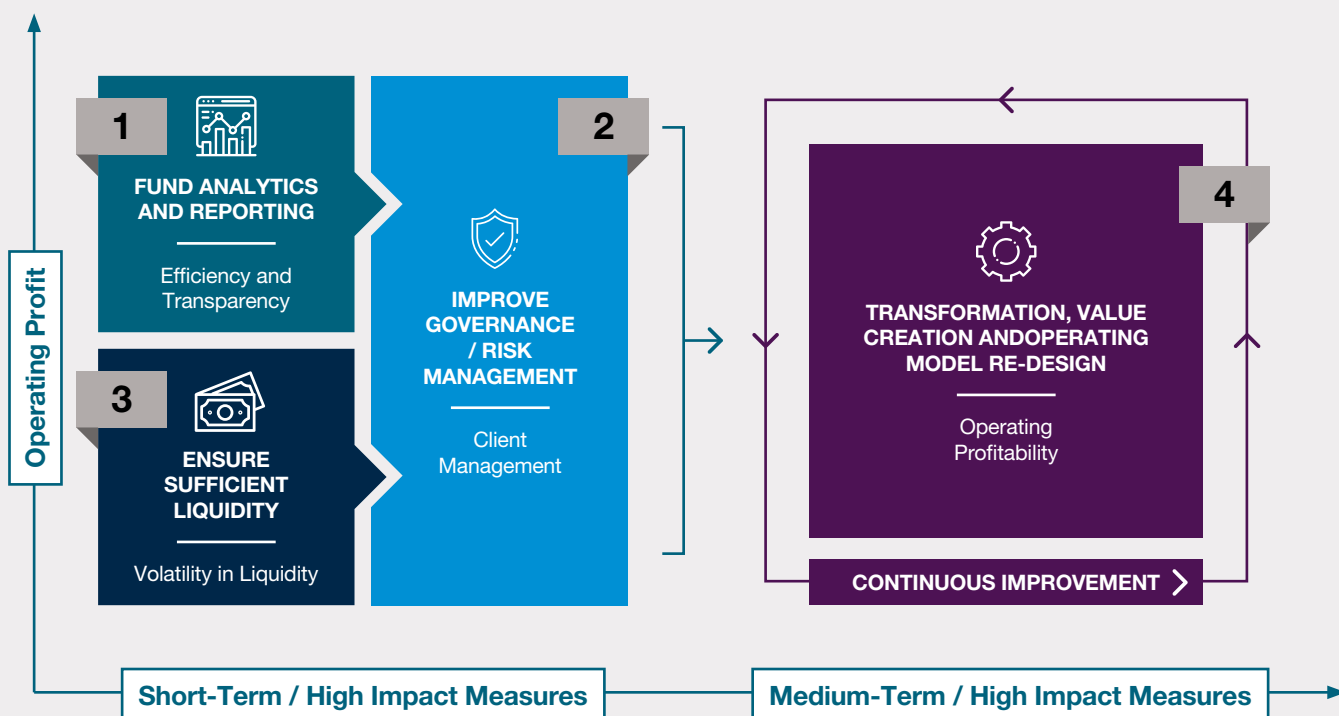
**Figure 3: A&M's view on drivers for continued consolidation in the industry over the next few years**

<b>Fee pressure</b>	<ul style="list-style-type: none"> <li>As retail and institutional investors continue to flock to low-fee products, pressure on fees will continue to intensify for incumbents.</li> <li>Scale is a key ingredient that sustains profitability and allows competition on fees. Evolving the AUM mix at pace will also help determine success.</li> </ul>
<b>Broader product demand</b>	<ul style="list-style-type: none"> <li>Investors are demanding more 'one-stop shop' solutions from money managers, e.g., a well rounded ESG offering and access to discretionary portfolio management.</li> <li>Achieving these objectives is likely to be easier for larger asset managers, who can access the capital to invest in developing complementary products and synergies.</li> </ul>
<b>High fixed operating costs</b>	<ul style="list-style-type: none"> <li>Large asset managers have been more successful than their smaller peers in reducing the fixed proportion of total operating costs.</li> <li>Achieving a cost structure that leverages operational efficiencies to optimise profitability will become still more important as the market continues to consolidate.</li> </ul>
<b>Digital transformation</b>	<ul style="list-style-type: none"> <li>Asset and wealth managers have generally been slow to adopt new technology.</li> <li>Large firms with significant AUM are investing in AI to enrich their data in order to help diversify client acquisition strategies and establish competitive differentiators.</li> </ul>

## A&M adds value quickly

Asset and wealth managers have a number of paths to improve operations and manage liquidity in the short term. These can lay the groundwork for more meaningful medium-term transformation plans.

**Figure 4: Short-term and medium-term actions recommended by A&M for asset and wealth managers**



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