



Asset and Wealth Managers: Strategic Market Update

Planning for a post COVID world

October 2020

Absorbing a shock to the system

In recent months, asset and wealth managers have shifted focus from immediate crisis response towards post-COVID planning. A robust summer rebound in asset prices and valuations provided breathing space for firms wary of initiating aggressive transformations. As of Q3 2020, given an increasing uncertainty in the marketplace, right-sizing and target operating model assessments are making their way back to the top of the agenda.

Investors are striving to understand which social and financial changes are temporary and which will be permanent. Central banks and governments have taken decisive action to support the global economy, but a high degree of uncertainty could still significantly influence valuations.

		April 2020 View	Q3 2020 View
Fee income / AUM	1 Compression of NAV	<ul style="list-style-type: none"> A sharp drop in capital / stock market valuations 	<ul style="list-style-type: none"> Sharp rebound in capital market valuations. Risk of future declines and continued volatility
	2 Changes to AUM composition	<ul style="list-style-type: none"> Investors commence rebalancing their portfolios by rotating to cash and ETF's to lowering fee 	<ul style="list-style-type: none"> Investors continue to rebalance their portfolios. ESG gains prominence and demand for passive remains strong
AUM	3 Higher levels of inflow and outflow activity	<ul style="list-style-type: none"> AUM inflow/outflow activity patterns exhibit material changes increasing uncertainty around planning 	<ul style="list-style-type: none"> Strong inflows into ESG, Liquidity and Passive funds observed
Profit	4 Relative inflexibility in the cost base	<ul style="list-style-type: none"> A stubborn fixed cost base putting pressure on profitability 	<ul style="list-style-type: none"> Temporary relief from the sharp market rebound. A topic under vigilant focus and review

Figure 1: Factors seen as likely to impact asset managers, as viewed in the spring and as of September 2020.

The evolving AUM mix

With investors flocking to low-fee products, asset managers are under pressure to transition the AUM mix in order to sustain fee levels required to remain profitable through a projected period of volatility.

Our analysis of seven peers (Figure 2) suggests that a focus on equities and balanced portfolios can generate stronger net fee income.

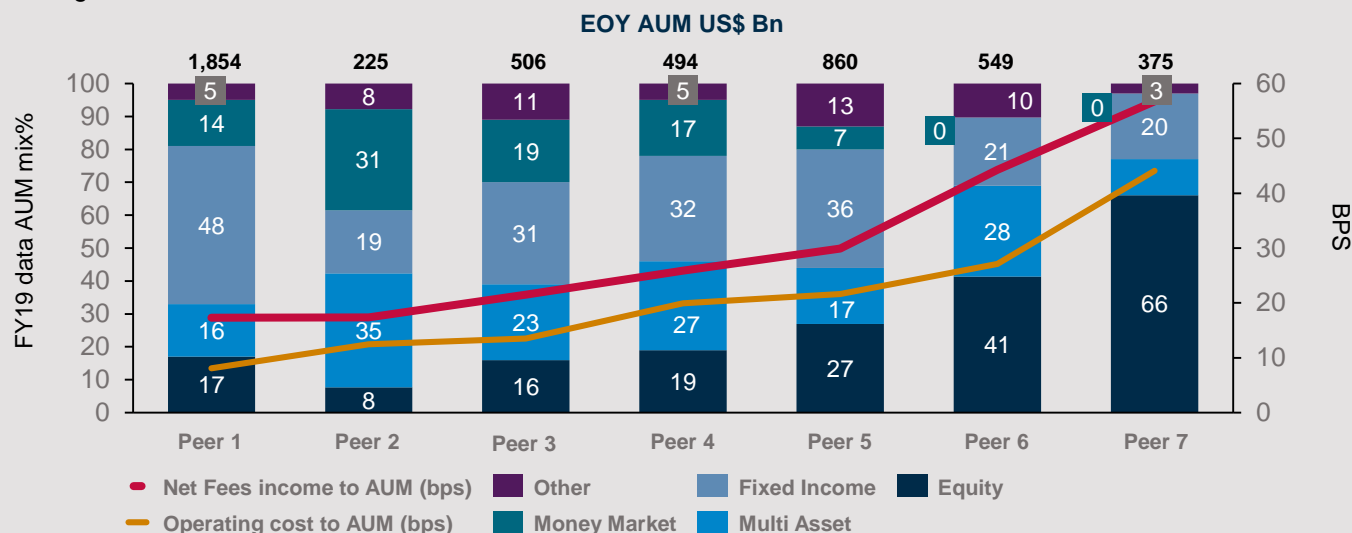


Figure 2: AUM mix across seven asset managers

The transformation agenda

COVID-19 has created new operational challenges and amplified existing ones. Nevertheless, the upheavals of 2020 represent an opportunity for wealth and asset managers to assess structural weaknesses that, if rectified, could position businesses more strongly for a 'new normal'.

Legacy delivery platforms	<ul style="list-style-type: none"> The industry has been slow to engage digital solutions for both Investment and Servicing An industry wide acceleration towards digitalisation and platform development (M&A and technology acquisition may be on the cards)
Pipeline replenishment	<ul style="list-style-type: none"> Rebuilding pipelines and opportunities that are running dry... ...impacted by remote engagement
Multi dimensional challenges in phases of COVID-19	<ul style="list-style-type: none"> Responding to the market and client impact Dealing with the logistics of remote operations (long-term / cost implications) Pivoting the business model
High uncertainty around the choice of operating model design	<ul style="list-style-type: none"> Mapping client expectations over the medium to long-term with conviction Start taking active steps to transition the business model to achieve target KPIs (incl. financial)

Figure 3: A&M's view on the top operational and transformation challenges for asset and wealth managers as of Q2/Q3 2020.

Implementing strategic plans: the key priorities

Asset and wealth managers are dealing with complex operational challenges in a world of increasing uncertainty. As a result, firms are shortening the planning cycles making it more difficult to develop effective and actionable implementation plans. Some trends in the market that we see include:



- **New routes to AUM growth** - Large asset and wealth managers are outperforming small and mid-sized firms in AUM performance. Inorganic growth strategies like acquisitions and partnerships will be required by challengers and mid-sized firms in order to develop scale and accelerate AUM growth.



- **Emphasis on profitability and cash generation** – Asset managers need to focus on internal cost efficiencies and build cash reserves. Financial investment will be required to fund future changes to the operating platform, which will be driven by a highly diverse set of client requirements.



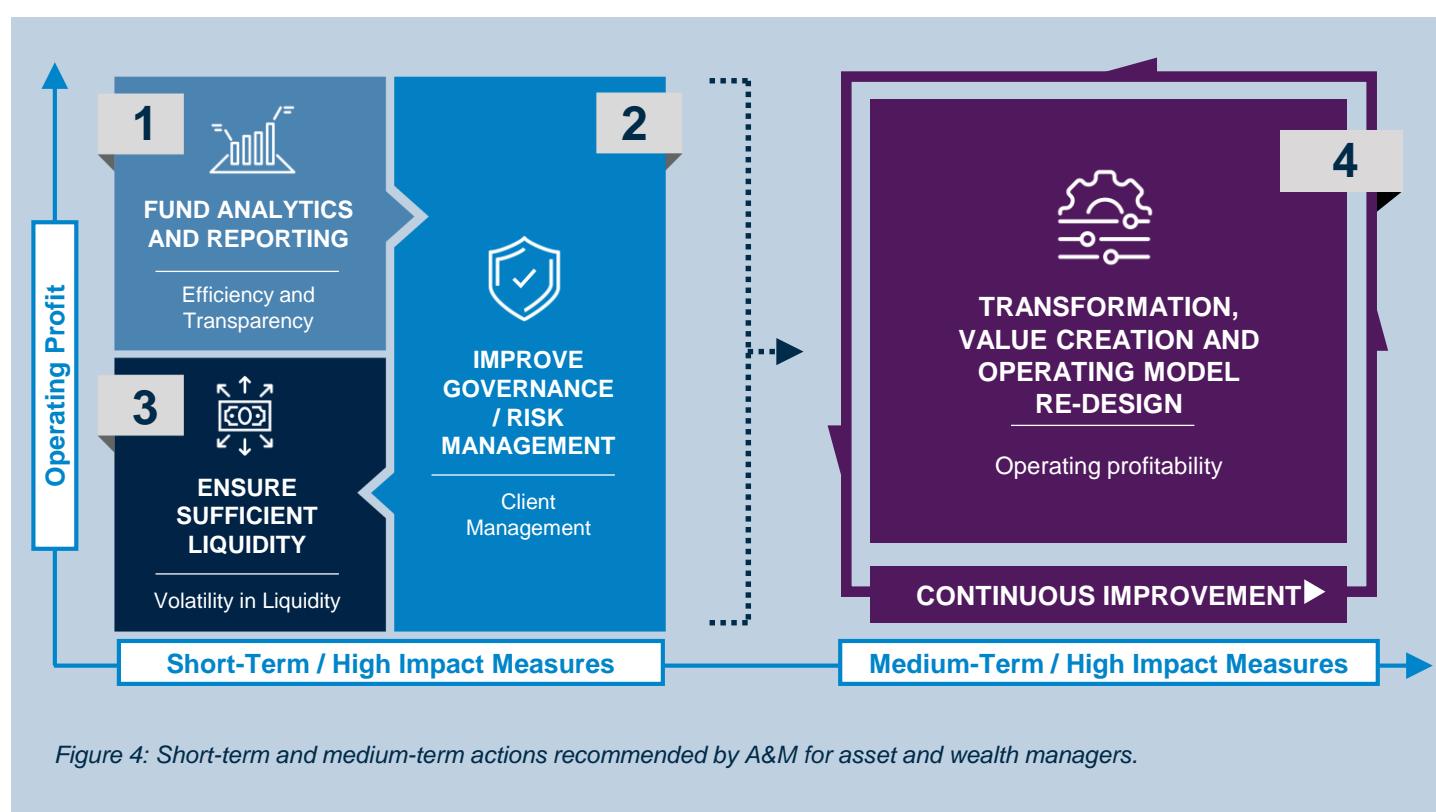
- **Technology and digital** - AI and data science expertise are still in the 'early adopter' phase. Firms with the richest data lakes will be best equipped to respond to future market demands. A sizeable AUM base comes as a precursor to advancing in this area.



- **Product innovation** - ESG as a category has outperformed and has witnessed large AUM inflows. In addition, we see asset and wealth managers moving towards alternative assets such as direct investing, private debt and private equity.

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.





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