Virtuelles Investmentforum 2020:
Asset Management Perspektiven

Break-Out-Session
Christian Güttler und Dr. Utz Helmuth
23. Juni 2020
Agenda

1. A look back and where we stand now 03
2. Six theses on the future of asset management 08
3. Cost transformation as a key success factor 15

“IT’S MARCH 11, 2020. AS WEI BOARDS HER TRAIN IN THE SUBURBS OF BEIJING, HEADING FOR HER OFFICE IN THE CAPITAL OF THE WORLD’S BIGGEST ECONOMY, SHE CHECKS HER MOBILE DEVICE. SHE HAS BEEN SENT A MESSAGE FROM INTERNATIONAL DATING COMPANY EMATCH’S SISTER SITE, EMATCH INVESTMENTS.”
A look back and where we stand now
Close to the target: What we predicted in our global Asset Management 2020 report and where we actually are today

### Global AuM development (in USD tn)

<table>
<thead>
<tr>
<th>Category</th>
<th>Forecast (also from a German perspective) was too conservative, especially for active funds; last decade with <strong>extraordinary growth in AuM</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Global AuM</td>
<td>+7.6% p.a.*</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>+8.6% p.a.*</td>
</tr>
<tr>
<td>Mandates</td>
<td>+6.2% p.a.*</td>
</tr>
<tr>
<td>Alternatives</td>
<td><strong>12.7</strong> +10.3% p.a.*</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Actual Data 2019</th>
<th>PwC Research centre 2020 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global AuM</td>
<td>107,0</td>
<td>101,7</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>48,0</td>
<td>41,2</td>
</tr>
<tr>
<td>Mandates</td>
<td>46,3</td>
<td>47,5</td>
</tr>
<tr>
<td>Alternatives</td>
<td><strong>13,0</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Forecasts and Reality

#### AM Landscape 2020

- Huge rise in assets and shift in investors base
- Pressures on the asset management industry
- Nothing to hide, nowhere to hide & nothing at risk
- Regulatory tsunami in full force
- Major bull run; sweeping asset growth since 2012
- Rising costs, lower margins and new entrants

### Gamechangers

- Asset management moves centre stage
- Fee models are transformed
- Alternatives become mainstream, ETFs proliferate
- Distribution is redrawn – regional and global hubs
- Inducement restrictions, move to discretionary PM
- Became a must have for sophisticated investors
- Asian passport / China opening slower than expected
- True for passives; local fund managers prevail
- Mostly still at the beginning of the digital journey
- Outperformed FS sector; more independent firms

CAGR 2012 - 2019

### Global AuM development (in USD tn)

<table>
<thead>
<tr>
<th>Category</th>
<th>Average Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global AuM</td>
<td>+8.6% p.a.*</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>+6.2% p.a.*</td>
</tr>
<tr>
<td>Mandates</td>
<td>+7.6% p.a.*</td>
</tr>
<tr>
<td>Alternatives</td>
<td>+10.3% p.a.*</td>
</tr>
</tbody>
</table>
After a very good year for German AM in 2019, Covid-19 led to a 5% decline in fund assets by end of April 2020

**Mutual funds (in EUR bn)**
- Securities funds impacted by market crisis in Q1, but **re recuperating in April**
- Real Estate (so far) **little affected**, but slower fund sales in March / April

**Institutional funds (in EUR bn)**
- Institutional clients invest **more conservatively** than private clients
- Net fund flows largely stable in Q1, but **significant redemptions in April**

---

Source: PwC projection based on BVI (FV deducted; adjusted) and Bundesbank; rounded
Effects in Q1 2020 similar to financial crisis in 2008 – if recovery continues, decline can still be overcompensated

### Fund Assets (in EUR bn)

<table>
<thead>
<tr>
<th>Scenario 2020</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2,991</td>
<td>2,870</td>
</tr>
<tr>
<td>B</td>
<td>2,778</td>
<td>2,637</td>
</tr>
<tr>
<td>C</td>
<td>2,744</td>
<td>2,520</td>
</tr>
</tbody>
</table>

### Net Revenues

<table>
<thead>
<tr>
<th>Scenarios 2020</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>89</td>
<td>89</td>
</tr>
<tr>
<td>B</td>
<td>93</td>
<td>88</td>
</tr>
<tr>
<td>C</td>
<td>103</td>
<td>103</td>
</tr>
</tbody>
</table>

### Gross Profits

<table>
<thead>
<tr>
<th>Scenarios 2020</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>30</td>
<td>29</td>
</tr>
<tr>
<td>B</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>C</td>
<td>36</td>
<td>36</td>
</tr>
</tbody>
</table>

### Scenarios

- **A**
  - Extrapolation from April 2020 to the end of the year
  - Current net fund flows annualized; valuation levels unchanged as of end of April

- **B**
  - Covid-19 with similar effects on asset management as the financial crisis
  - Net fund flow and changes in individual asset classes same level as in 2008

- **C**
  - Situation returns to normal and May-Dec 2020 is in line with the long-term average
  - Stock markets recover and remain at current levels (05 June 2020)

Source: PwC projection based on BVI (FV deducted; adjusted) and Bundesbank; rounded; Net Revenues and Gross Profits normalized at 2019 = 100
We have to carefully analyse the main developments over the past weeks to learn our lessons and to prepare for future crises.

**Key observations during the March 2020 Covid-19 market downturn**

- Operational resilience of most asset managers and service providers; minor hick-ups despite high volumes
- Suspension of redemptions in a number of EU products; liquidity gates in Germany not yet implemented
- Regulators with increased scrutiny regarding and surveillance of fund liquidity risks
- Valuation issues with some instruments due to volatility of markets (some funds with no NAV)
- Collapse of some investment strategies in turbulent markets (e.g. short vola products)
- Increase in volatility causes change in fund risk indicators -> up to 40% of UCITS require KIID updates
- ETF market making provides additional liquidity, but exchange prices with deviations from iNAV
- Passive products (Crude Oil ETFs) contribute to collapse of US WTI futures market
- US Back-Stop saves the corporate bond market from drying out
- Crisis, what crisis? FS sector seems decoupled from real economy
- Still too early to judge impact of Covid-19 on investor behavior and asset performance (e.g. real estate)

*Based on 12 ETFs included in Fed SMCCF program; period 16 Mar 2020 to 05 Jun 2020*
Six theses on the future of asset management
Thesis #1: Comprehensive ESG positioning is already a must for a growing client segment with an eco-social focus

Sustainable investments for private & inst. investors

Regulation in the financial sector is evolving

Objectives

1. Orientation of capital flows towards a sustainable financial system
2. Environmental, governance and sustainability aspects as a standards in risk management
3. Promotion of transparency and sustainability

ESG outperforming conventional investments

- MSCI reports that 15 of 17 of their sustainable indices outperformed broad market counterparts during COVID-19
- Long-term effect: New study from Morningstar supports outperformance of ESG funds compared to conventional investments over the last 10 years

- Institutional investors account for around 93% (2012: 77%) of sustainably invested funds in Germany
- The average annual growth of sustainable investments for institutional investors (35%) is much higher than for private clients (8%)
- Church institutions and welfare organisations remain the most important group of investors

Source: Sustainable Investment Forum

Private investors

Institutional investors

2012 2013 2014 2015 2016 2017 2018

6.1 7.7 8.2 9.3 7.5 8.5 122

6,1 7,7 8,2 9,3 7,5 8,5 9,4

CAGR
Thesis #2: Fund distribution will be redrawn – how to master the Thermomix® challenge?

- **Traditional distribution models remain intact (for now)**
  Inducement led advice will prevail in retail banks and with (captive) financial advisors, but with diminishing overall importance.

- **Asset gatherers become increasingly indifferent towards fund providers**
  Private banks, wealth manager, robo-advisor, B2C platforms etc. are driving demand for clean share classes and ETFs while looking for ways to stay / become profitable.

- **Fund platforms consolidate - European champions in the making**
  Large players position themselves as neutral providers and get in the way between asset manager and distributors as well as institutional clients.

- **The number of unsolicited customers is on the rise**
  Changing consumer behavior and cost pressures in the financial sector reduce the active sale of investment funds; government sponsored retirement solutions with big impact.

- **Antiquated sales severely limits the success of product innovation**
  However, legacy distribution channels are required to finance ongoing operations.

Fund companies need to modernize their distribution strategy and develop new ways to interact with investors and intermediaries.
Thesis #3: Structural change persists – ETF megatrend and continued shift into alternative investments

ETF volume in Germany (in EUR bn)

- **Continued growth expected in the German ETF market** mainly driven by:
  - Core/satellite asset allocation by institutional investors
  - Increasing potential in the retail business due to changing client behavior
- **Still comparatively low absolute volume** compared to US

Global volume of alternative investments (in USD bn)

- **Real estate, infrastructure, private equity and private debt** are most popular among institutional investors in Germany
- In the next twelve months, **82% of institutional investors plan to increase their exposure to alternatives**

Source: BVI, Prequin, BAI Investor Survey 2019, PwC analysis

Asset Management Perspectives

PwC | Strategy&
Thesis #4: Business models are shifting with a fundamental impact on market strategies and operating model design

- Illustrative -

**Investment Company (KVG)**
- Portfolio Management & Trading
- Investment Controlling
- Transaction Processing
- Portfolio & Fund Services

**Depositary**
- KVG Monitoring
- Unit Certificate Management
- Settlement / Custody

**Business model options**

1. **Full Service KVG**
   - **The Classic Model**
   - The initial business model of the AM industry consisting of a full service KVG and depositary
   - This model is still available in the market, however, declining in importance

2. **Master KVG**
   - **The Master KVG Model**
   - Separation of value chain into asset management, administration and depositary
   - Investors select individual providers as preferred; fund companies strive for efficiency

3. **Asset Servicing**
   - **The Manager and Servicer Model**
   - Master KVG and depositary functions merged into asset servicing division
   - Integrated solutions incl. provision of front office platforms to asset managers
Thesis #5: Digital transformation is still in an infant stage – Fintechs will fill the functional void left by core systems
Thesis #6: Structural cost transformation will be an imperative in times of flat or falling markets

### Profitability of the German asset management sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Master KVG</th>
<th>Real Estate</th>
<th>Asset Manager</th>
<th>Full Service KVG</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>12.5</td>
<td>11.9</td>
<td>10.8</td>
<td>2.5</td>
</tr>
<tr>
<td>2007</td>
<td>11.9</td>
<td>11.9</td>
<td>10.8</td>
<td>1.1</td>
</tr>
<tr>
<td>2008</td>
<td>12.5</td>
<td>11.9</td>
<td>10.8</td>
<td>1.1</td>
</tr>
<tr>
<td>2009</td>
<td>20.5</td>
<td>12.9</td>
<td>13.5</td>
<td>22.5</td>
</tr>
<tr>
<td>2010</td>
<td>13.5</td>
<td>12.9</td>
<td>13.5</td>
<td>22.5</td>
</tr>
<tr>
<td>2011</td>
<td>13.5</td>
<td>12.9</td>
<td>13.5</td>
<td>22.5</td>
</tr>
<tr>
<td>2012</td>
<td>13.5</td>
<td>12.9</td>
<td>13.5</td>
<td>22.5</td>
</tr>
<tr>
<td>2013</td>
<td>13.5</td>
<td>12.9</td>
<td>13.5</td>
<td>22.5</td>
</tr>
<tr>
<td>2014</td>
<td>20.5</td>
<td>12.9</td>
<td>13.5</td>
<td>22.5</td>
</tr>
<tr>
<td>2015</td>
<td>20.5</td>
<td>12.9</td>
<td>13.5</td>
<td>22.5</td>
</tr>
<tr>
<td>2016</td>
<td>20.5</td>
<td>12.9</td>
<td>13.5</td>
<td>22.5</td>
</tr>
<tr>
<td>2017</td>
<td>20.5</td>
<td>12.9</td>
<td>13.5</td>
<td>22.5</td>
</tr>
<tr>
<td>2018</td>
<td>20.5</td>
<td>12.9</td>
<td>13.5</td>
<td>22.5</td>
</tr>
</tbody>
</table>

Source: PwC estimates based on financial statements (eBanz), BVI and Bundesbank

### Rising sector profits mainly caused by growing fund assets

- **Assets grow on average by +6.7% p.a. with significant variance**
  - Main contributor are steady net fund flows with +5% p.a.
  - Every year about -2.4% p.a. of assets are paid out as distribution of income
  - Performance impact of +4.1% p.a. and major source of variation
  - Correlation to equity markets lower than expected due to asset class mix and shift of funds to cash in crisis (with missed opportunity post turnaround)

- **Revenues are highly correlated with AuM at on average 27 bps**
  - Erosion of fee margins (competitive pressure, ETFs) by -1.1% p.a.
  - Impact limited due to change in product mix (alternatives, multi asset funds)

- **Costs also highly correlated with AuM at on average 17 bps**
  - Limited scale effects (savings) of -1.6% p.a., but limitations in time sample

- **Operating margins stable at on average 10 bps**
  - Sticky costs and falling variable revenues as profit killers during economic downturn

Structural cost transformation (reduction & variabilization) is essential in times of limited asset growth
Cost transformation as a key success factor
With high pressure on profitability already before COVID-19, reducing cost should be on top of the strategic agenda.

### Challenges in AM before Covid-19

- **Slow growth of AM in Europe (2012 to 2017)**
- **Pressured management fees**
  - Germany & Switzerland: +33%
  - Top 20 AM worldwide: +75%

### Additional challenges caused by Covid-19

- **Sharp decline in AuM**
  - Decline in AuM caused by overall stock market decline (~12%)
- **Strain on operations**
  - Record Volumes (in the short term) - price challenges, phone & web traffic
  - Large redemptions currently being seen could lead to a lack of liquidity
  - Transition to remote work environment
  - Hiring freezes and anticipated reduction in headcount, although more personnel would be needed in the short term

### Costs and strategic positioning on top of the agenda

- AuM decreased through the COVID-19 crisis
- AM margins under pressure

Source: PwC Global AWM Research Centre analysis based on Lipper, annual reports, Bloomberg, ICI, EFAMA, City UK, Hedge Fund Research and Preqin; strategy& analysis

Asset Management Perspectives

PwC | Strategy&
AuM and margin decreases in Q1 are severe but less than first expected due to market recovery end of March and net inflows

Delta in Margins and AUM of Q1 20 to Q4 19

**Delta Margin Q1 20 vs Q4 19 (in %-points)**  
-6.2%  
-12.5%

**Delta AuM Q1 20 vs. Q4 19 (in %)**  
-20%  
-16%

**Insights**

- AuM decrease in Q1 less than first expected due two effects:
  - Some market recover towards the end of Q1
  - Net inflows for most AM, despite significant outflows in March
- Margins have been decreasing mostly in accordance with the decrease in AuM (with the exception of a few outliers)
- Large scale asset managers overall with smallest decreases in AuM and margins
- Due to large differences in AuM and consequently margins, asset managers should put cost on their agenda

Source: Quarterly reports from selected, exchange-listed Asset Managers, reporting Q1 2020 from 1st of January to 31st of March and Q4 2019 from 1st of October to 31st of December; strategy& Analysis

Asset Management Perspectives

PwC | Strategy&
Asset managers that started reducing their cost consequently before the crisis are now in an advantageous position

**Delta in operating expenses of Q1 20 to Q4 19**

<table>
<thead>
<tr>
<th>Average cost decrease without dedicated effort (in %)</th>
<th>Average cost decrease with dedicated effort (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4%</td>
<td>-9%</td>
</tr>
<tr>
<td>-8%</td>
<td>5%</td>
</tr>
<tr>
<td>-9%</td>
<td>-18%</td>
</tr>
<tr>
<td>-21%(^1)</td>
<td>-5%</td>
</tr>
</tbody>
</table>

**Insights**

- 2 of 10 asset managers in focus mention **dedicated cost programs**
- Cost programs show **potential to reduce cost** and strong effect compared to cost discipline
- Both short-term and structural measures taken (e.g. simplify corporate structure)

---

1) Estimation according to projected savings and total expenses 2019
Source: Quarterly reports from selected, exchange-listed asset managers, reporting Q1 2020 from 1st of January to 31st of March and Q4 2019 from 1st of October to 31st of December; strategy& Analysis
Asset Management Perspectives

PwC | Strategy&

---
In the market we see four promising Ways-to-Play for asset managers – scaling and specialization as leading themes

<table>
<thead>
<tr>
<th>Ways-to-Play</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure Scale Player</td>
<td>• Holistic offering and coverage paired with relatively low costs</td>
</tr>
<tr>
<td></td>
<td>• Standardization and operational excellence</td>
</tr>
<tr>
<td></td>
<td>• Leverage global platforms</td>
</tr>
<tr>
<td>Value Chain Integrator</td>
<td>• Aggressive extension of existing businesses into additional, profitable parts of value chain</td>
</tr>
<tr>
<td></td>
<td>• Either Front-to-Back, Back-to-Front or across sectors</td>
</tr>
<tr>
<td>Network Monopolist</td>
<td>• Part of captive FS network / group and thus close relationship specific clients</td>
</tr>
<tr>
<td></td>
<td>• Product offering tailored to target client segment, broad enough to keep competitors out</td>
</tr>
<tr>
<td>Product Innovator</td>
<td>• Niche, innovative product positioning</td>
</tr>
<tr>
<td></td>
<td>• Strong brand around investment capabilities</td>
</tr>
<tr>
<td></td>
<td>• Prominent fund manager / “Star”</td>
</tr>
</tbody>
</table>

Source: strategy&
Asset Management Perspectives
Leading asset managers position themselves with ambitious cost targets and a broad collection of cost-cutting measures

<table>
<thead>
<tr>
<th>Type of asset manager</th>
<th>SHORT TERM MEASURES</th>
<th>LONG TERM MEASURES</th>
<th>COST AMBITION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-3 months</td>
<td>3+ months</td>
<td>(Operating Expenses to AuM in BPS)</td>
</tr>
<tr>
<td><strong>General measures</strong></td>
<td></td>
<td></td>
<td>&lt; 10</td>
</tr>
<tr>
<td><strong>Type specific measures</strong></td>
<td></td>
<td></td>
<td>~ 10 -15</td>
</tr>
<tr>
<td><strong>Projects and Products</strong></td>
<td></td>
<td></td>
<td>~ 5</td>
</tr>
<tr>
<td><strong>Organization and workforce</strong></td>
<td></td>
<td></td>
<td>~ 10 - 20</td>
</tr>
<tr>
<td><strong>Operations and IT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sourcing and locations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Pure Scale Player
- Projects and Products: Re-prioritize projects
- Organization and workforce: Temporarily reduce compensation, especially bonus
- Sourcing and locations: Analyze optimization of office space (with everyone in the home office, think about how much office space you really need, what business units might actually profit working from anywhere)

2. Value Chain Integrator
- Projects and Products: Rationalize portfolio
- Organization and workforce: Consolidate capabilities and organizational entities/ simplify structure
- Operations and IT: Optimize IT spend (maybe even increase spend to accelerate digitization)
- Sourcing and locations: Review sourcing/shoring strategy and consider outsourcing/shoring

3. Network Monopolist
- Projects and Products: Strategic portfolio shift towards more crisis resistant investments (e.g. ESG)
- Organization and workforce: Consolidate capabilities and organizational entities/ simplify structure
- Operations and IT: Optimize IT spend (maybe even increase spend to accelerate digitization)
- Sourcing and locations: Review sourcing/shoring strategy and consider outsourcing/shoring

4. Product Innovator
- Projects and Products: Rationalize portfolio
- Organization and workforce: Consolidate capabilities and organizational entities/ simplify structure
- Operations and IT: Optimize IT spend (maybe even increase spend to accelerate digitization)
- Sourcing and locations: Review sourcing/shoring strategy and consider outsourcing/shoring

Source: strategy& Asset Management Perspectives
Thank you