

The New Context Asset and Wealth Management Revolution 2023

Break-out Session

Ulrich Keipert
PwC Financial Services

Dr. Utz Helmuth
Strategy&



25th Investmentforum



Frankfurt

21st September 2023

16%

of existing AWM organisations
will have been swallowed up or fallen by the wayside by 2027
– twice the historical rate of turnover –

An industry in transformation amid a “new context”



Shifting investor expectations will disrupt the status-quo

1. The AWM industry is **grappling with a larger set of existential challenges than ever before**
2. Areas that have long been critical are **gaining new ground – and posing fresh questions**; like
 - digital transformation
 - retailisation and
 - consolidation
3. All of this **against a backdrop of once-in-a-generation social, economic and geopolitical disruption**

For industry players, the choice is simple:

Adapt to the new context or fail

Your speakers today



Ulrich Keipert,
Director, PwC Financial Services
ulrich.keipert@pwc.com



Dr. Utz Helmuth
Managing Director, Strategy &
utz.helmuth@pwc.ch

Five Key Imperatives for Future Success



Steering through a once-in-a-career upheaval



Getting close to the customer



Embracing experimentation and change



Delivering at scale amid cost and competitive pressures



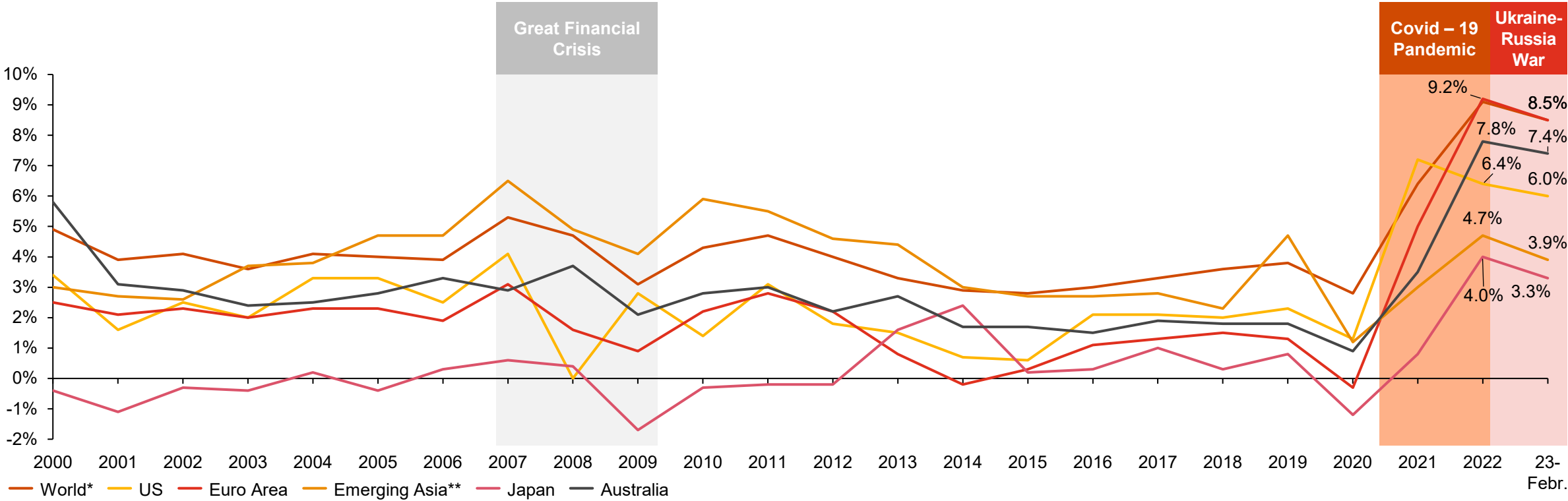
Standing up to intensifying scrutiny





Global inflation hits 20-year high in 2022

 Inflation rates (end of period)



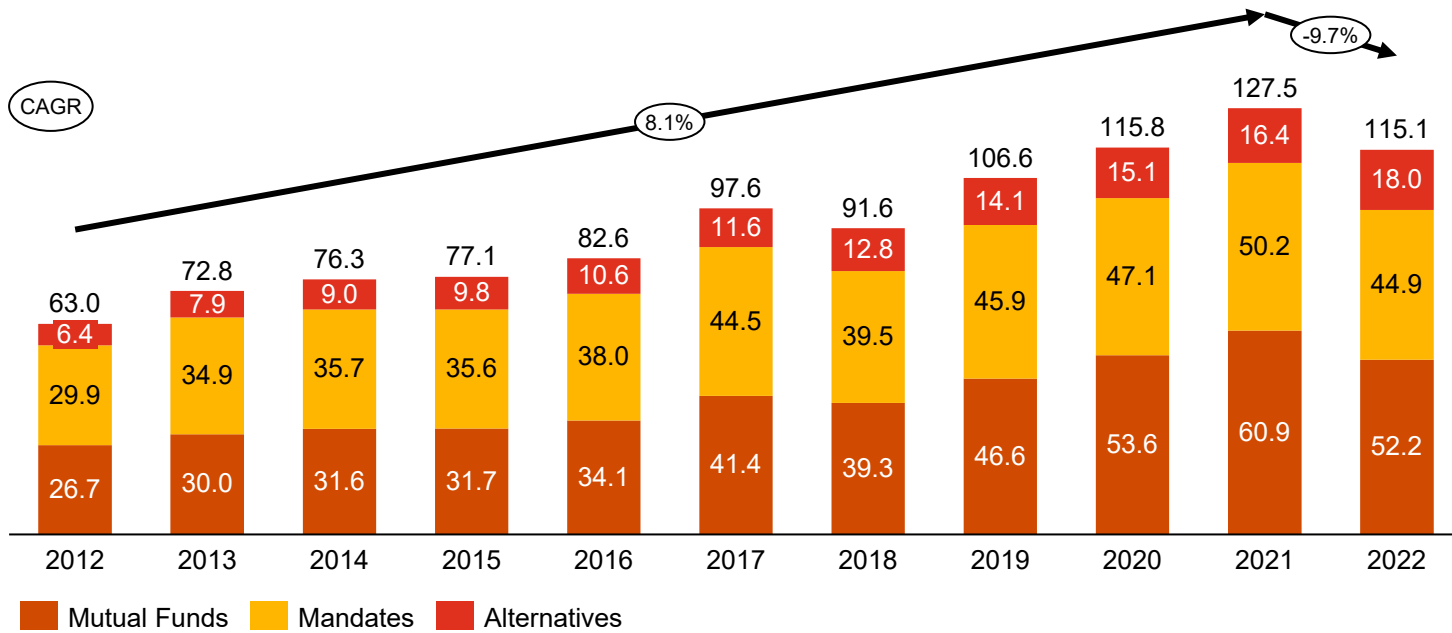
*Values for February 2023 estimated from regional inflation data; **Values for February 2023 estimated from single-country inflation
Sources: PwC ESG & AWM Market Research Centre, Central Banks Data, IMF



Steering through a once-in-a-career upheaval



Global AuM (USD tn)



- Inflation, market volatility and interest rate movements are by far the biggest concerns for both investors and asset managers over the next 12 to 24 months.
- Fragmentation of economic and geopolitical forces could lead to further disruptions by 2027

Outperforming the market, and even outperforming low-risk deposits and money market funds, will be challenging in this exacting, post-covid environment.

Sources: PwC Global AWM & ESG Research Centre, Refinitiv Lipper, Preqin

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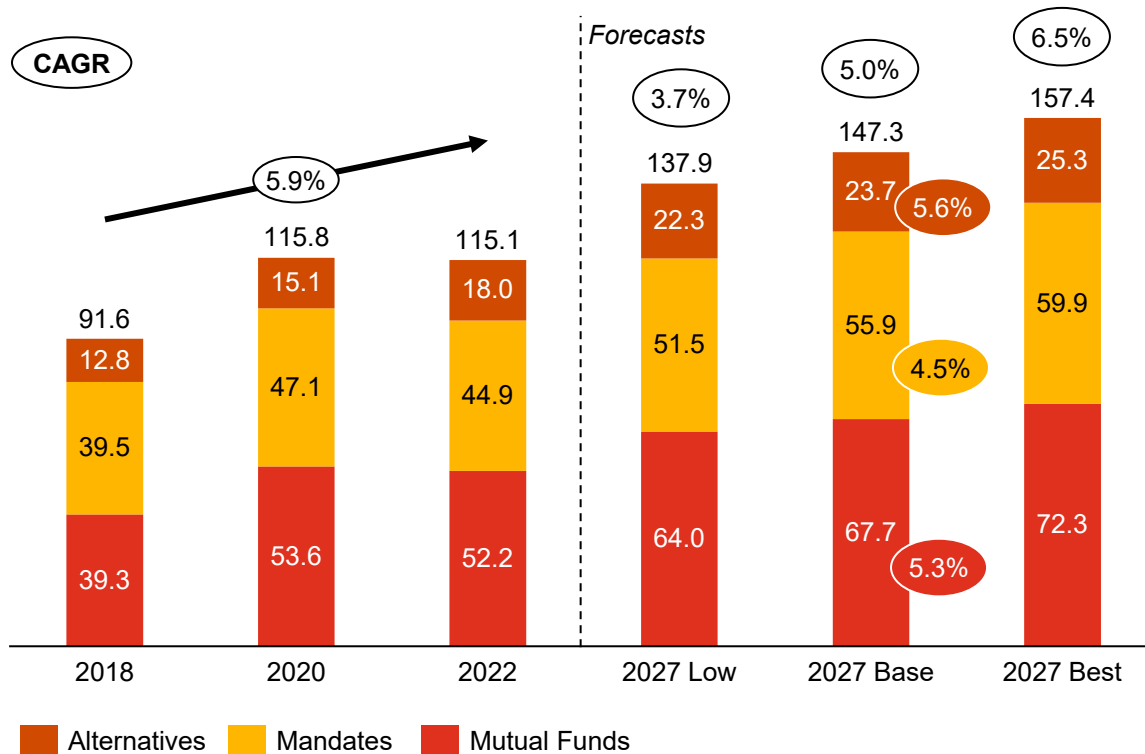
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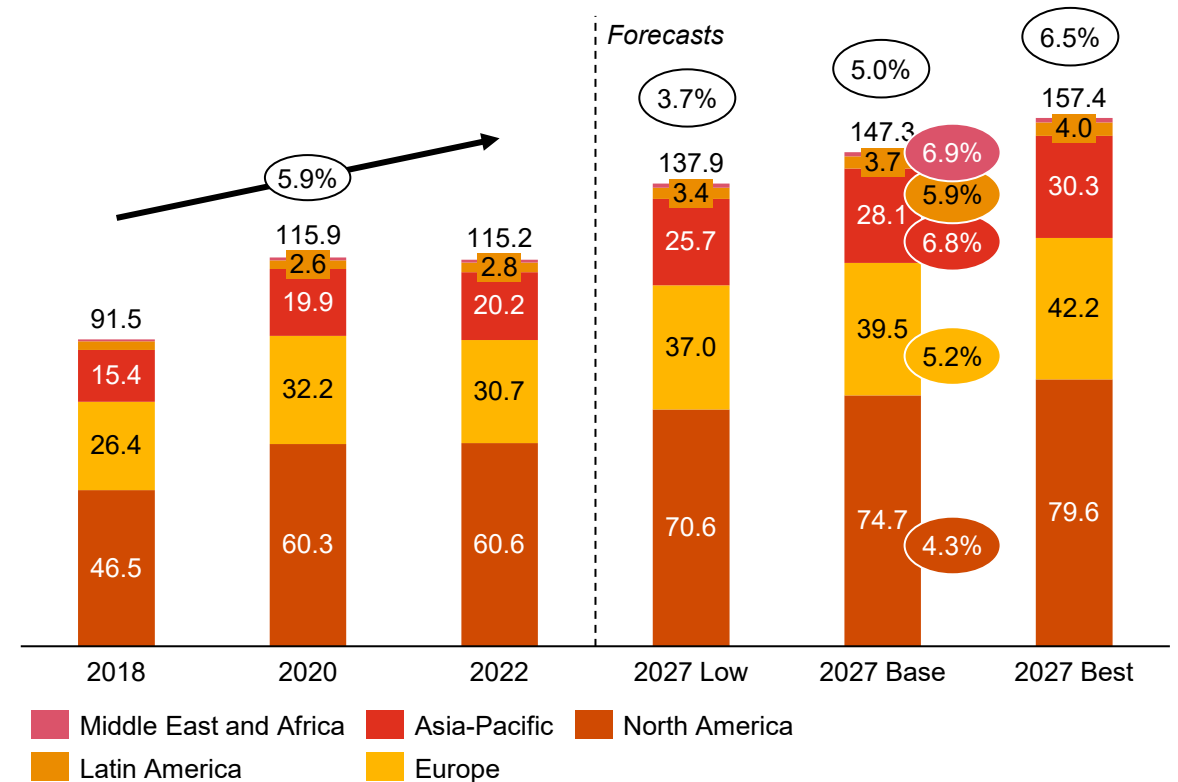
Global AuM almost bounces back to long-term CAGR by 2027 to reach USD 147.3tn



Global AuM (USD tn)



Global AuM by region (USD tn)



Sources: PwC Global AWM & ESG Research Centre, Refinitiv Lipper, Preqin

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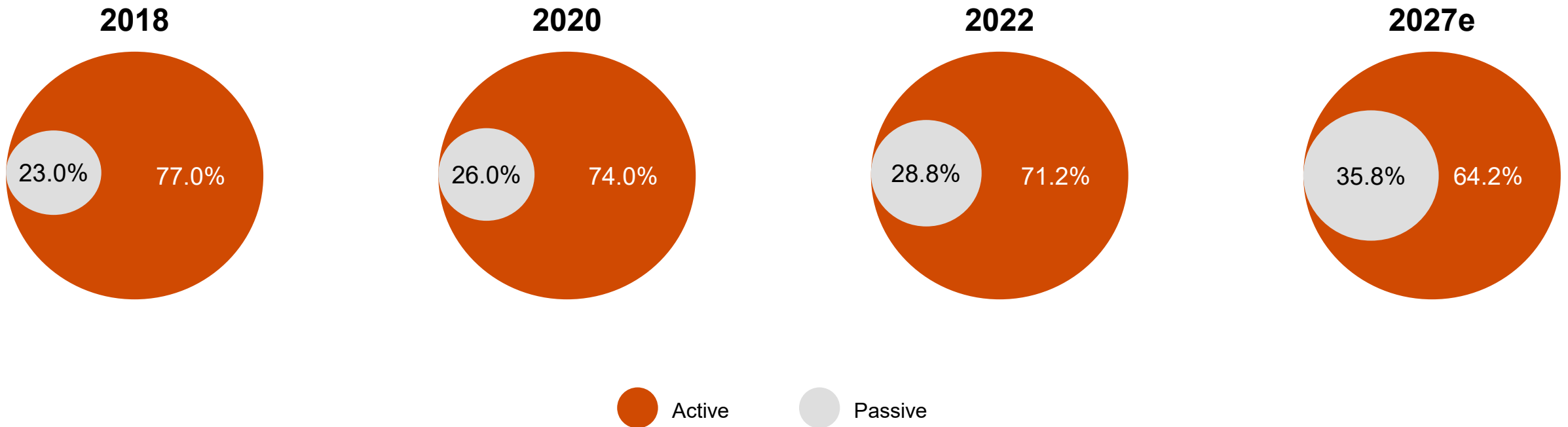
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Further shifts from actives into passives to lower fees for industry by 2027



Global AuM¹⁾ (Active vs Passive Split)

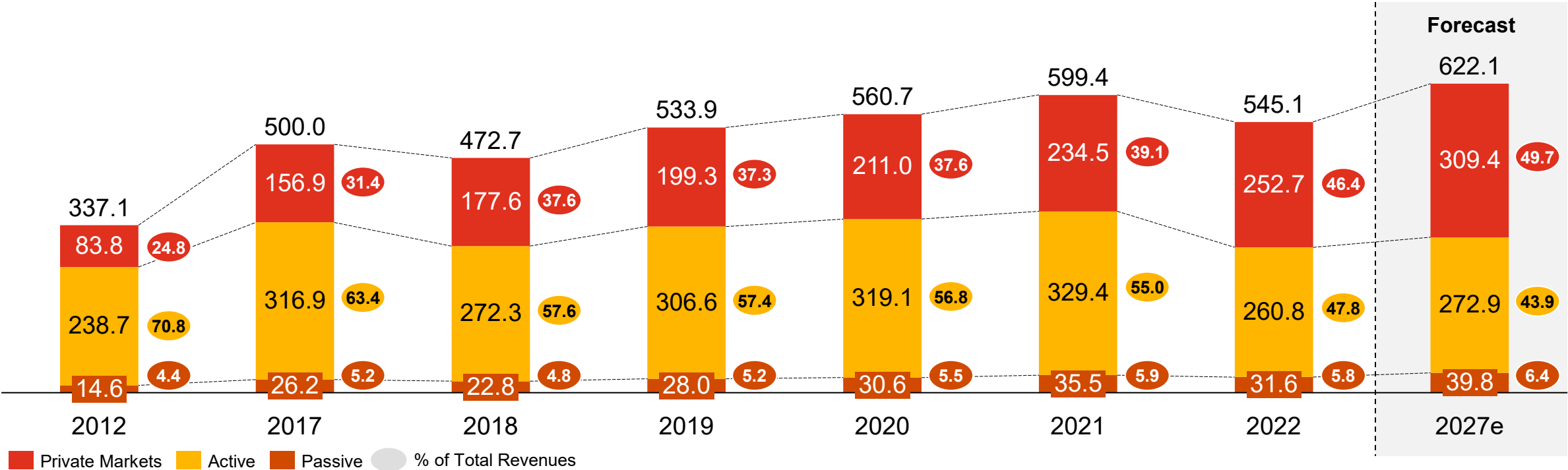


1) AUM excludes Alternatives
Sources: PwC Global AWM & ESG Research Centre, Refinitiv Lipper
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Global revenues are expected to reach USD 622.1 bn by 2027

 Global AWM revenues (in USD bn)



Note: Private Markets revenue includes management fees and carried interest; Private markets excludes Hedge Funds.

Sources: PwC Global AWM & ESG Research Centre, Lipper, Preqin, Pitchbook

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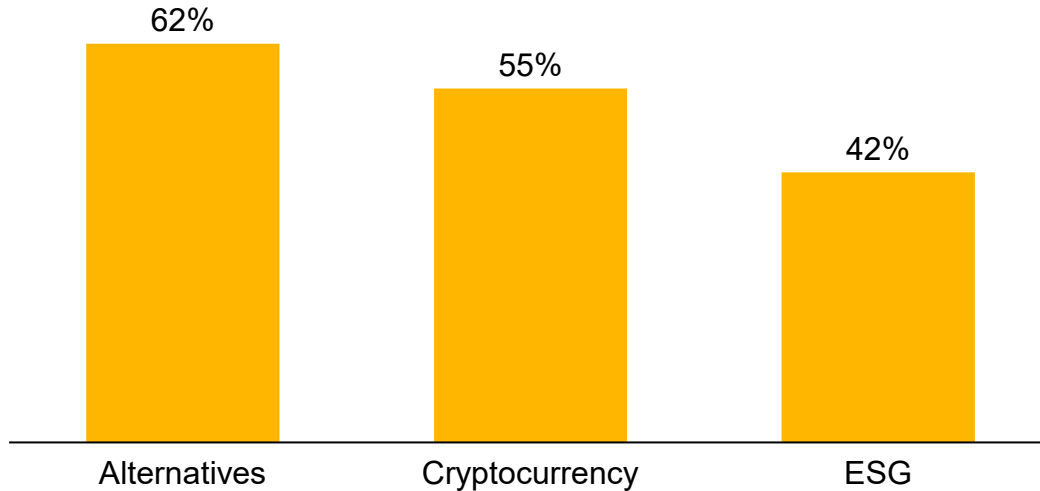
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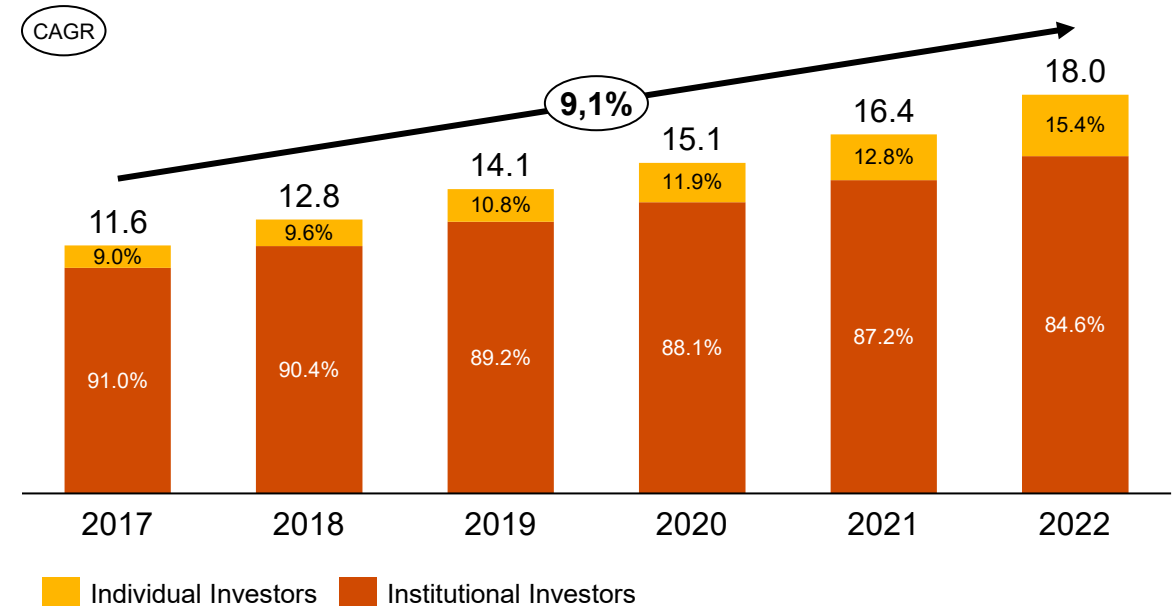
Getting close to the customer: Retail market with untapped growth opportunities



HNWI demand for alternatives exceeds other products/strategies



Alternative AuM Individual vs Institutional (USD tn)



One of the most salient takeaways from our survey is that the retail market offers vast and still largely untapped openings for growth

Sources: PwC Global AWM & ESG Market Research Centre, Preqin, Cerulli Associates

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Active ETFs to become mainstream by 2027



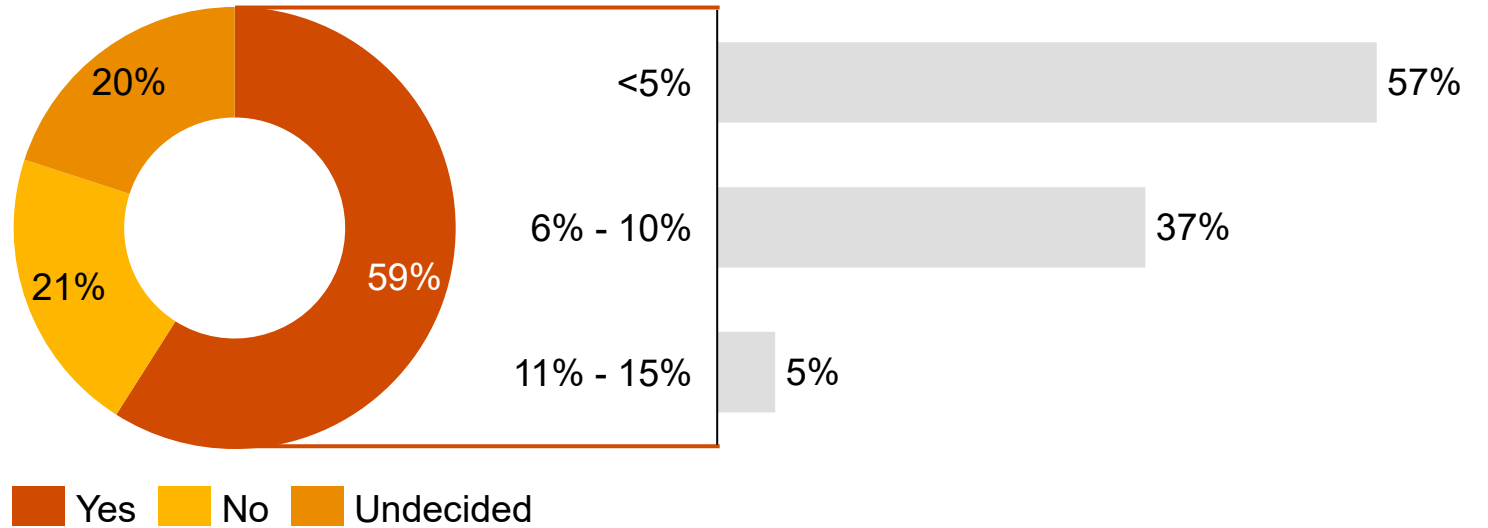
Institutional investors considering investing in active ETFs

20%

of institutional investors who plan to invest in innovative strategies are considering investing in active ETFs in the coming 12-24 months



Asset managers considering converting up to 5% of their mutual fund offering to active ETFs



The opening up of private markets and shifts in investment allocation - including greater demand for exchange-traded funds (ETFs) - are transforming the competitive landscape and the frontiers for growth



Growing diversification need will prompt investor calls for widened product offerings

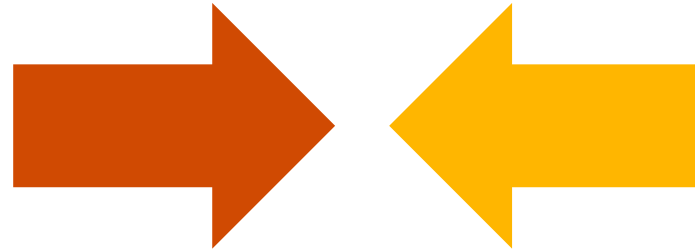


Asset managers to keep up with rapidly expanding demand for wider product offerings

The growing importance of customization, flexibility and innovation

61%

*of investors expect their asset manager(s) to develop **innovative and more tailored products** in the coming 12-24 months*



58%

*of asset managers will prioritise the **development of innovative and more personalised solutions** in the next 12-24 months*

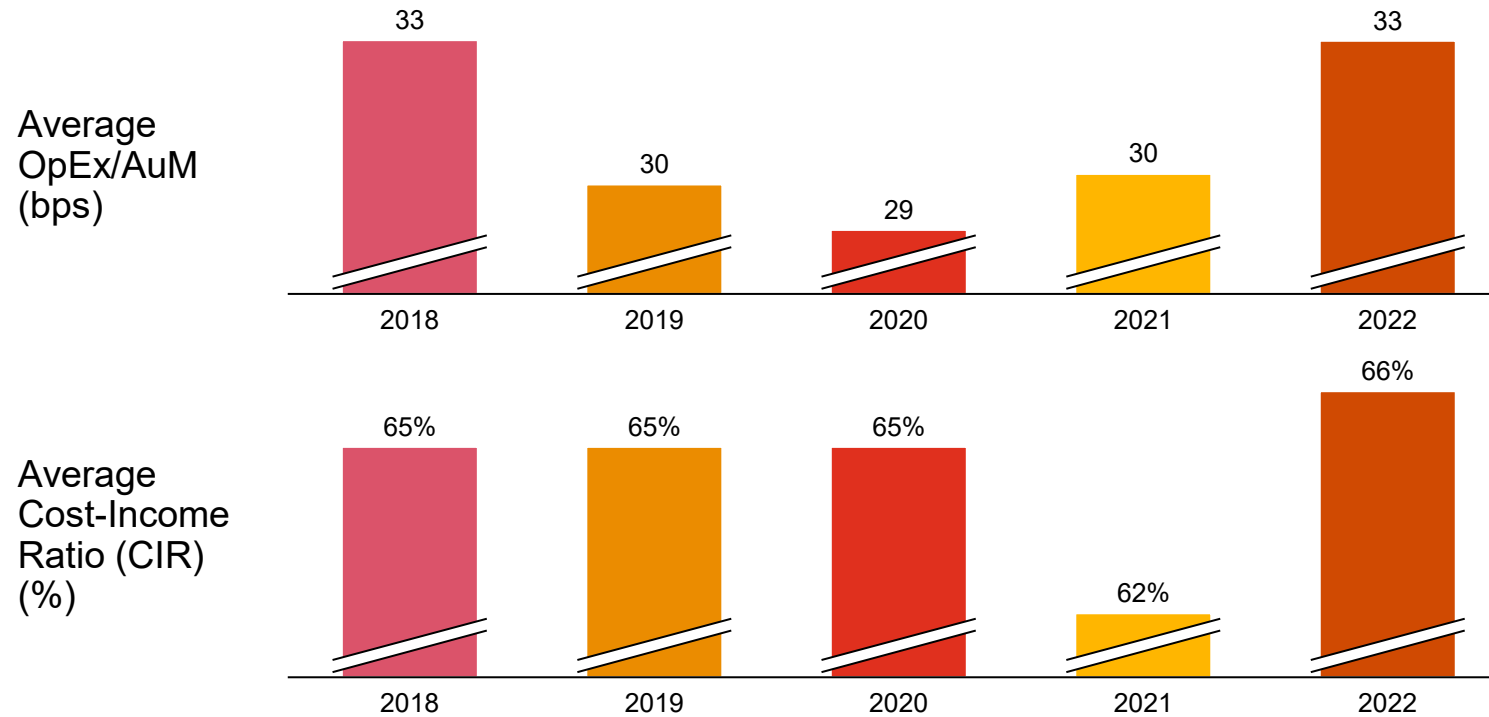
Diversification remains a priority for many investors as a way of weathering market volatility & unlocking new return potential, leading to increased demand for wider product offerings from asset managers



OpEx/AuM and CIRs are rising in AM – effective cost management will be crucial



Outside-in competitive cost benchmarking¹⁾



Insights

- OpEx/AuM and CIRs notably increased
- This is driven by rising cost levels and AuM declines, which in turn has led to decreased revenues
- While the top-line effect will likely normalize with increasing market performance and rebounding AuM, cost management will be key
- Specifically, costs have increased due to a variety of factors, including wage inflation, talent acquisition, technology investments, and regulatory/compliance costs (including others)

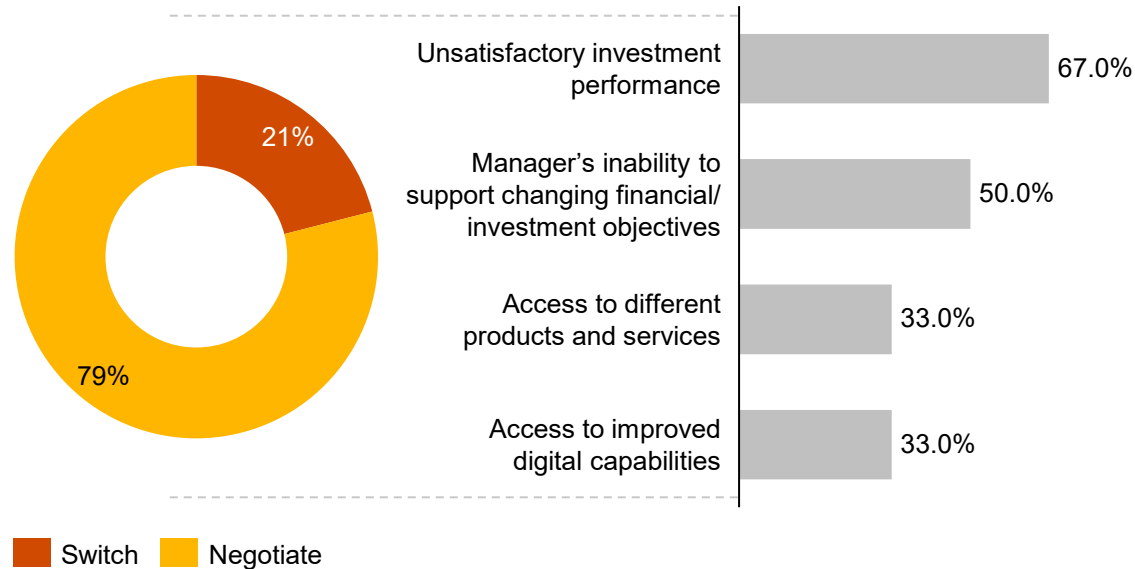
¹⁾ Sample of 28 leading European and US Asset Managers, using 2022 figures;
Source: Annual reports 2022; Strategy& analysis



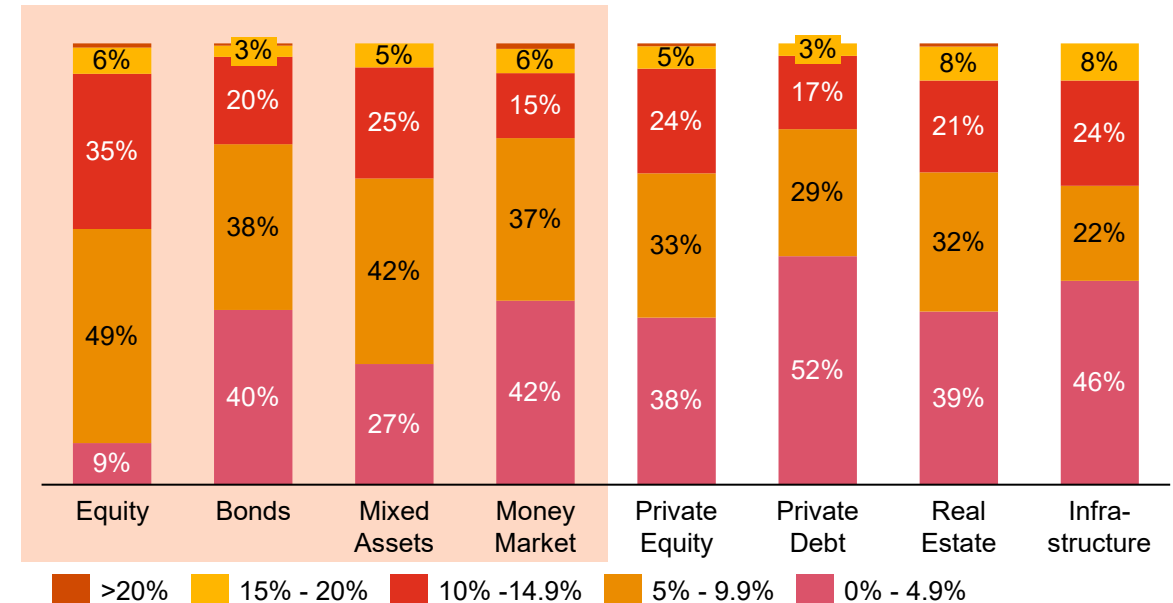
However, clients asking for further fee reductions and put pressure AM's top line...



Unsatisfied institutional investors are more likely to negotiate fees rather than to switch current asset managers



Decline in fees required by institutional investors in the coming 12-24 months

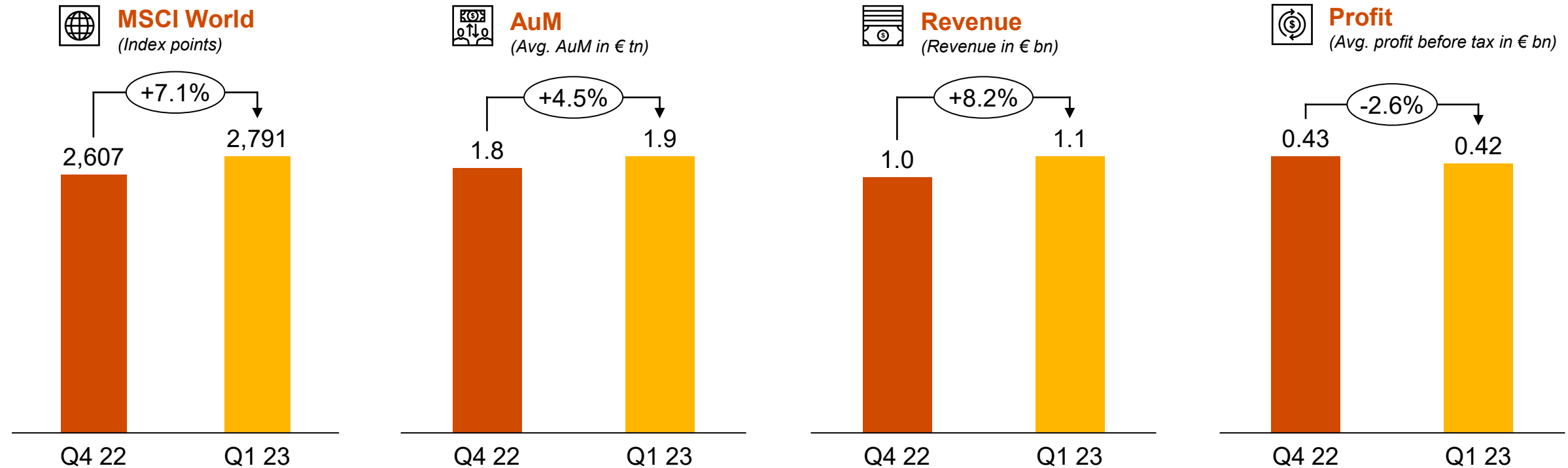


The biggest downward push on fees is now coming from within the AWM industry, as large managers are able to exert a combination of scale and investment in the latest technologies to undercut competitors



... with negative effects on the bottom line: Despite recovery in 2023, profitability is struggling to keep pace with market growth

Comparison Q4 2022 and Q1 2023¹⁾



Despite improving AuM levels and revenue growth, profits are declining in a recovering market environment – asset managers will need to exercise cost control in their business portfolio, organizational model and operations

¹⁾ Sample of 11 leading European and US Asset Managers with available data for above-stated metrics between Q4 2022 and Q1 2023

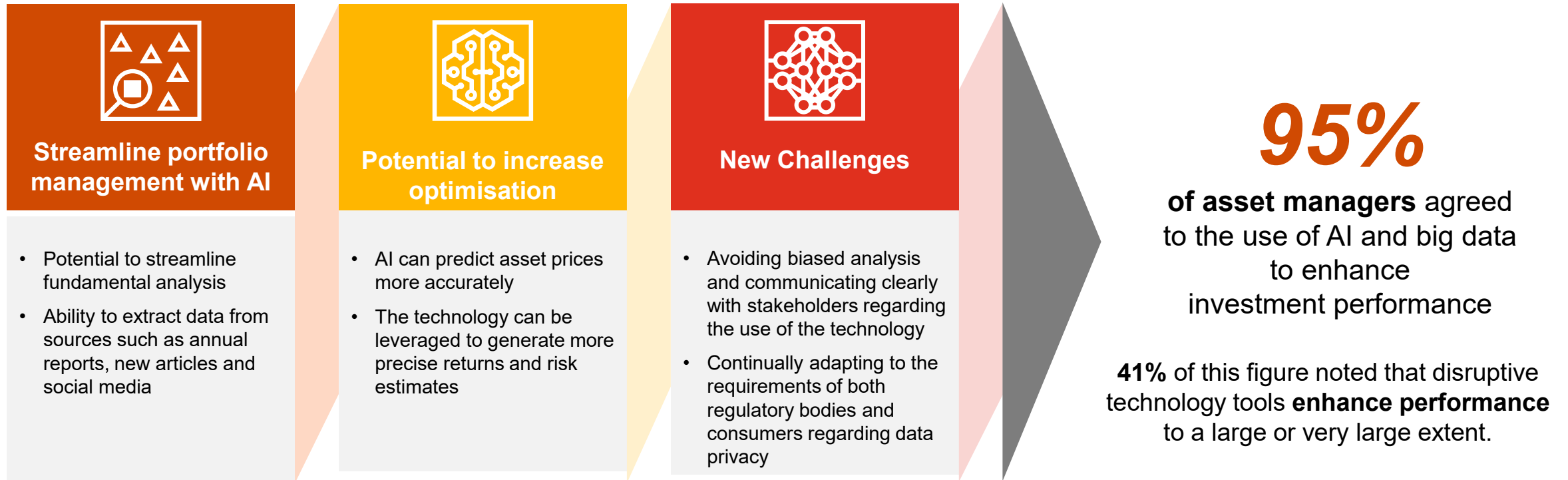
Source: Annual reports; MSCI World Index; Strategy& analysis

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AI as opportunity to revolutionise the industry?



AI and big data represent an inflection moment for AWM, creating openings for industry democratisation and growth, but also the serious risk of disintermediation and cybersecurity

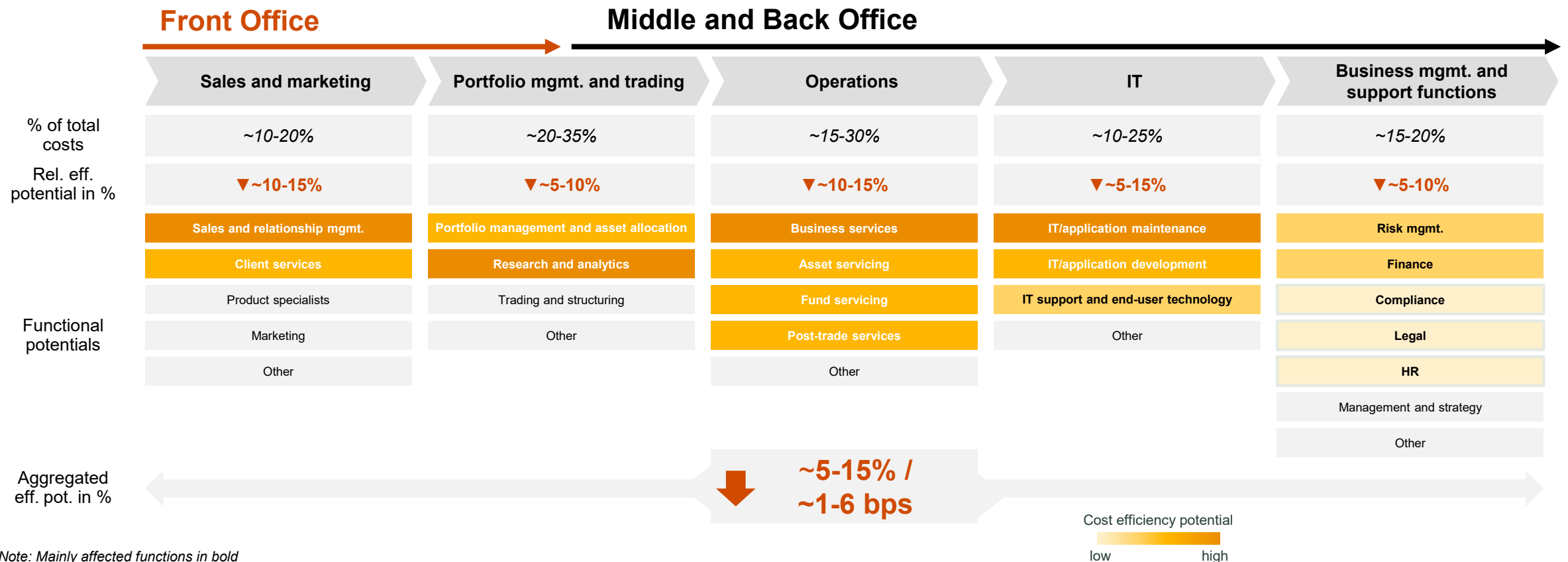


GenAI is expected to cut total costs along the AM value chain by 5-15%



Overview of GenAI cost efficiency potentials in Asset Management

INDICATIVE – NON-EXHAUSTIVE



Note: Mainly affected functions in bold

Source: Strategy& analysis

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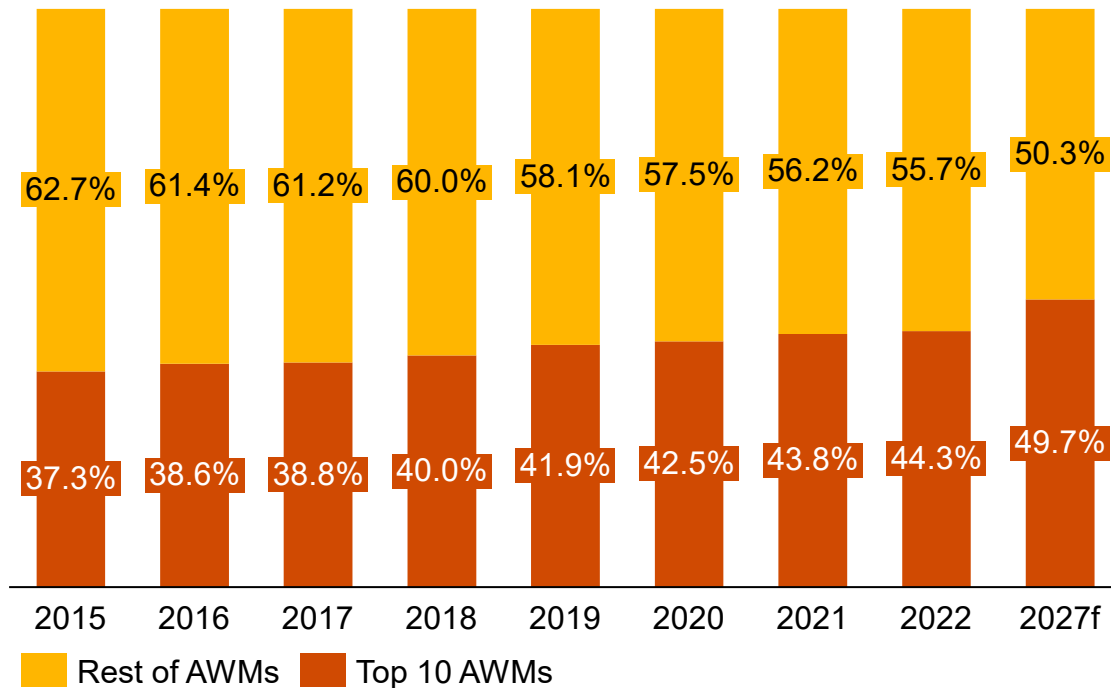
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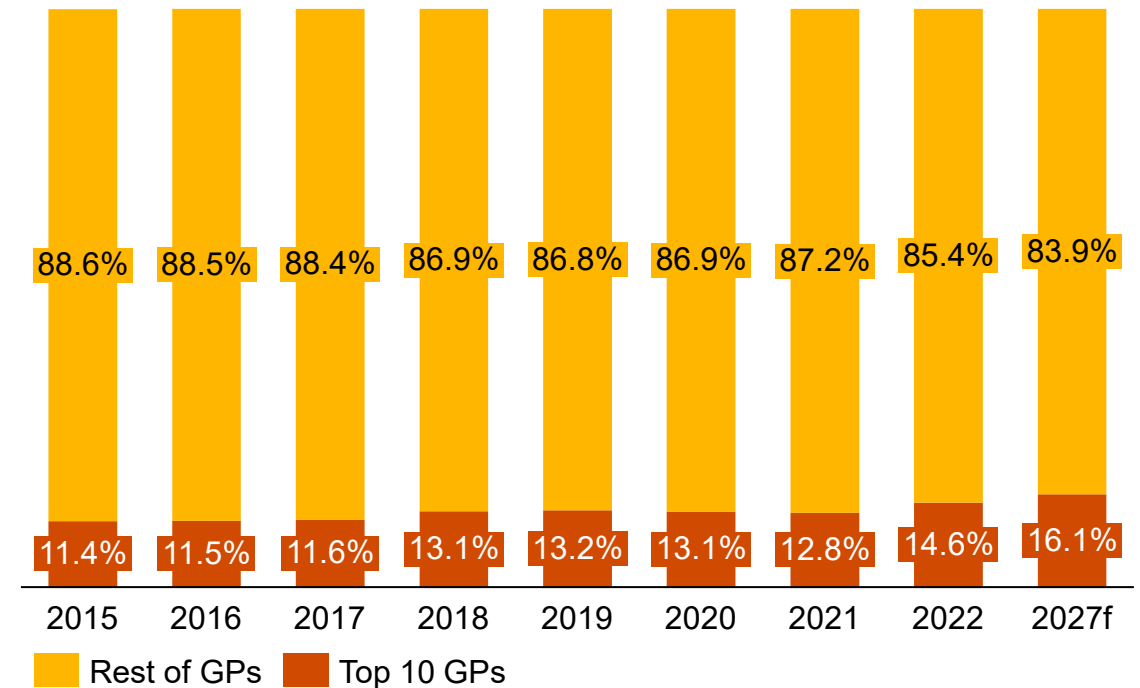
We expect market concentration of the largest managers to further increase by 2027



Asset concentration within top 10 AWMs (%)¹⁾



Asset concentration within top 10 GPs (%)²⁾



1) AWM sample for Traditional AMs taken from mutual funds and ETFs only

2) GP sample taken from Private Market Fund Managers AuM excluding Hedge Funds, Funds of Funds and Secondaries

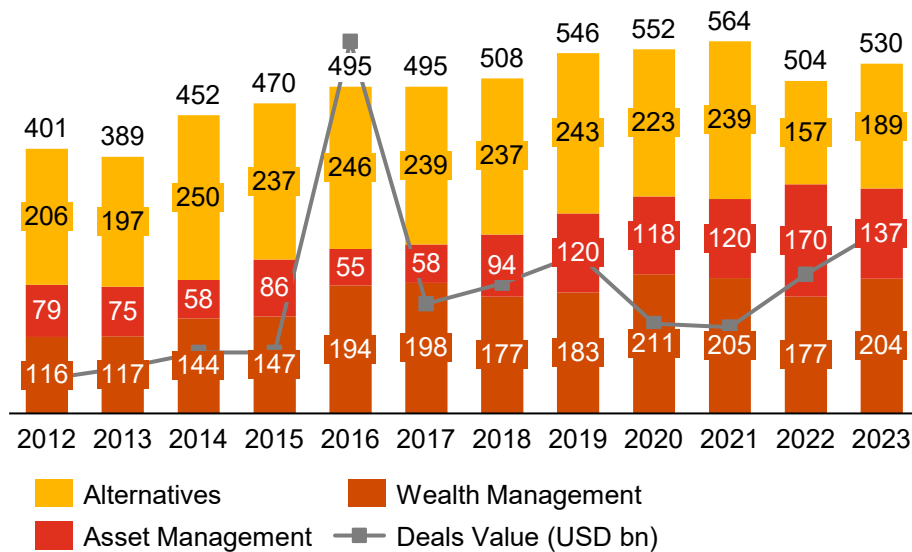
Sources: PwC Global AWM & ESG Research Centre, Refinitiv Lipper, Preqin



Increasing M&A activity expected from 2024 amid tightening business environment



M&A deals in the AWM industry
(volume and values)



Factors for asset managers to consolidate
in the upcoming 12-24 months



Given increasing M&A and market concentration, we expect **16% of current asset managers to be extinct by 2027**

Notes: 2023 forecast for M&A deals is an extrapolation of Q1 2023 data

Sources: PwC Global AWM & ESG Research Centre, Refinitiv Lipper

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Standing up to intensifying scrutiny pressures: e.g. regulatory landscape for ESG



Countries are developing their own regulatory frameworks, increasing costs for asset managers



United Kingdom

- Striving to become an ESG hub for the international AWM industry
- Key measures include the SDR and Green Taxonomy, which will gradually be implemented until 2026



European Union

- World-leading regulatory framework supporting growth in the European ESG market
- Key frameworks include the EU Taxonomy, SFDR, and CSRD or the CSDD



United States

- The SEC is proposing changes to incorporate ESG factors into its financial framework
- Improved rules on climate-related disclosures and modifications to the 'Names Rule' should be finalised and implemented in 2023




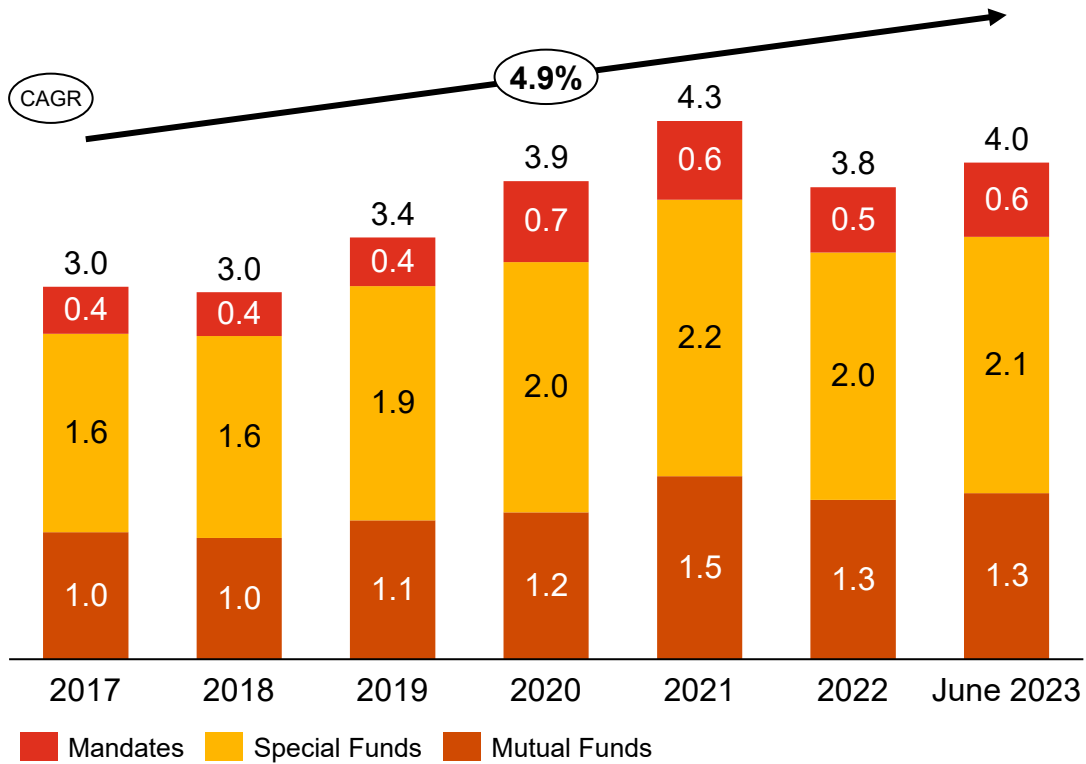
Asia - Pacific

- Hong Kong and Singapore are at the forefront of APAC's ESG advancements
- Regional initiatives include the ASEAN Taxonomy and ASEAN Sustainable and Responsible Fund Standards, scheduled to be implemented by 2025.

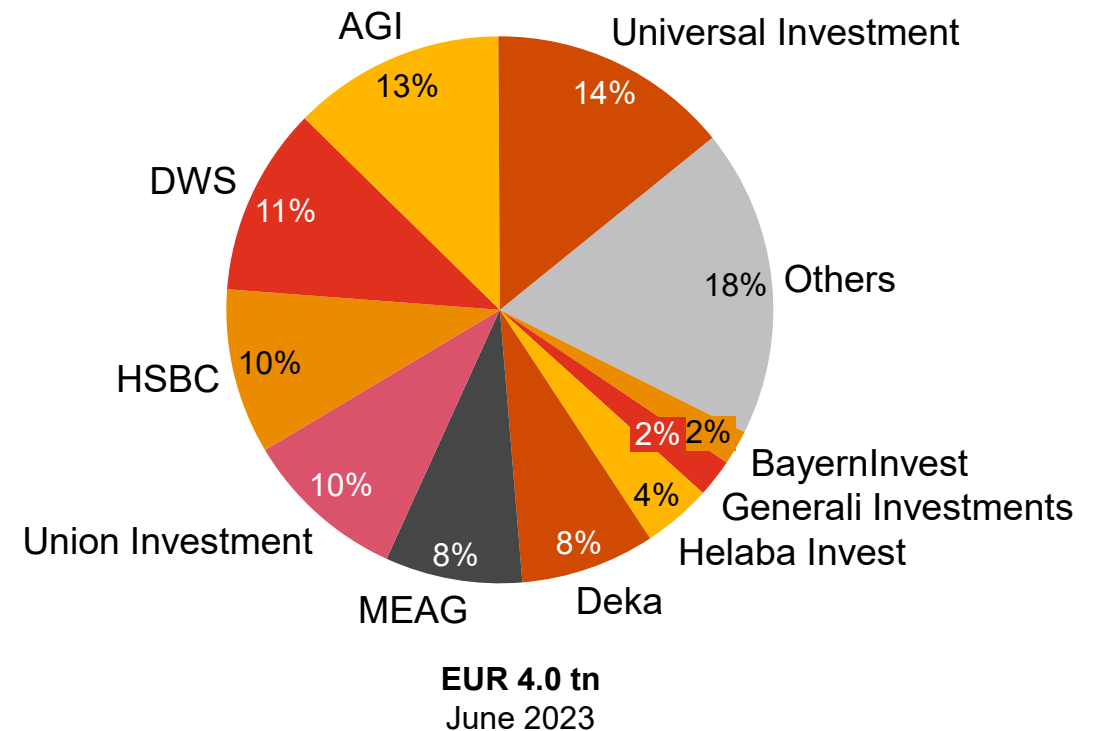
In addition to increased regulatory scrutiny, we expect to see an **increased effort from asset managers to include societal considerations in their performance** in order to improve how employees - and next-gen investors - perceive them

Growth in German Asset Management market expected to continue over next years

 AuM by asset class (in EUR tn)



 AuM by market participant (in %)



Source: BVI, PwC Calculations

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The way forward – Adapt your organisation to the “new context”



Steering through a once-in-a-career upheaval

Identify and focus on your unique selling point (USP)

Buy-in what you can't excel in



Getting close to the customer

Go where your customers go

Consider a wider set of potential partners

Rethink your client relationship strategy

Create new offerings



Embracing experimentation and change

Rethink your systems infrastructure

Lead with the new

Gear up for mass customisation ahead

Manage risks



Delivering at scale amid cost and competitive pressures

Hone in on your targets

Look beyond scale



Standing up to intensifying scrutiny

Embrace a more public face

Define and deliver the right investor outcomes

Lead, don't follow

Discussion



Thank you.

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