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AWM Strategy and Deals

Investmentforum 2022

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Cost and growth in Asset Management

Benchmarking analysis and implications for Asset Managers

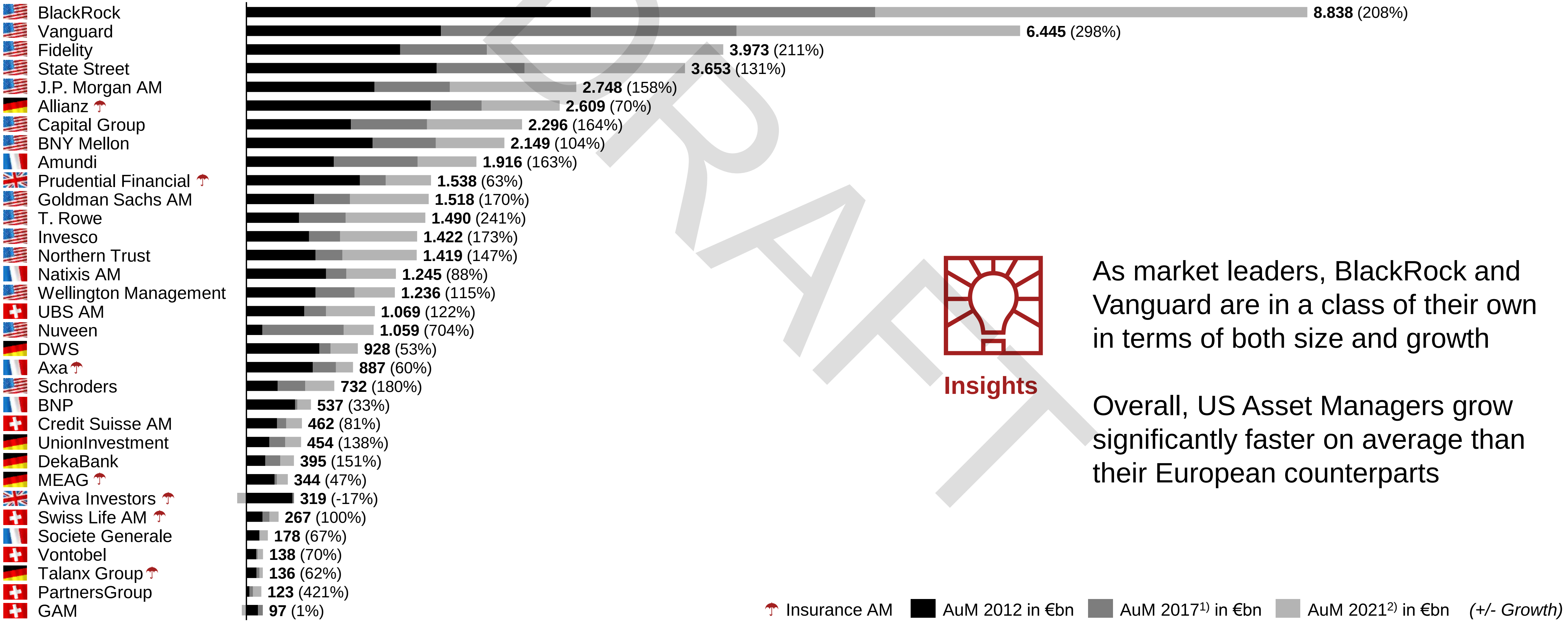
Executive summary

- **20% growth in AuM** (2019-2021) within our sample of 46[1)] Asset Managers, while **profits** have **increased by a staggering 22%**
- **Smaller Asset Managers** with **active** business models and a high share of equities remain among the **most profitable**, even at significantly higher costs per AuM. But also larger Asset Managers above USD 1tn can achieve a comparably high profitability with active AM business models
- Overall, the average **CIR has strongly improved,** from ~65% to ~61% – despite a further increase in OpEx per AuM (26.4 to 27.5 bps per AuM). The latter was overcompensated by a stronger increase in revenues
- An exemplary review of 10 Asset Managers' **half year numbers** reveals that the phenomenal **growth of AuM, revenues and profitability** in 2021 is **reversed,** reflecting **reduced stock market valuations**: From 16% to -%9 AuM growth, 22% increase in OpEx per AuM and -6% profitability
- With **continuous global uncertainties**, talk of recession we recommend to **concentrate** on "good cost", i.e., supporting **differentiating capabilities** while **cutting** "bad cost", i.e., cost of **non-essential capabilities**

1) 46 Asset Managers in sample with AuM reported at least for 2012, 2019-2021

US market leaders continue their growth story – only few others able to keep pace

Growth of largest and selected AMs (2012 to 2017 to 2021 in €bn)



Insights

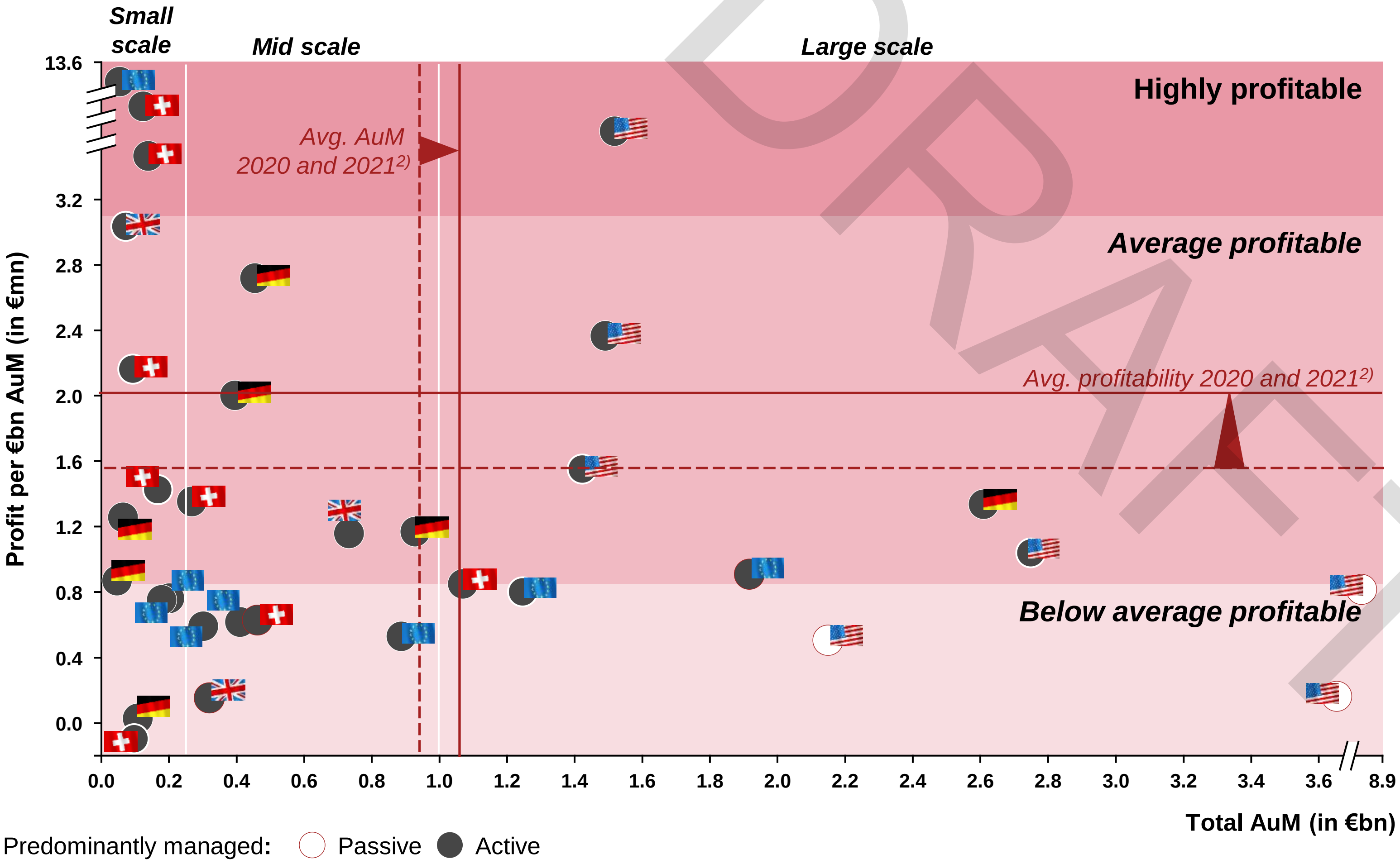
As market leaders, BlackRock and Vanguard are in a class of their own in terms of both size and growth

Overall, US Asset Managers grow significantly faster on average than their European counterparts

1) Additional AuM from 2012 to 2017; 2) Additional AuM from 2017 to 2021;
Source: Company reports 2021; Strategy& analysis

Favourable year 2021 for AM - AuM growth picked up and profits increased sharply. Small, PE/active AM most profitable

2021 Outside-in competitive profit benchmarking[1)]



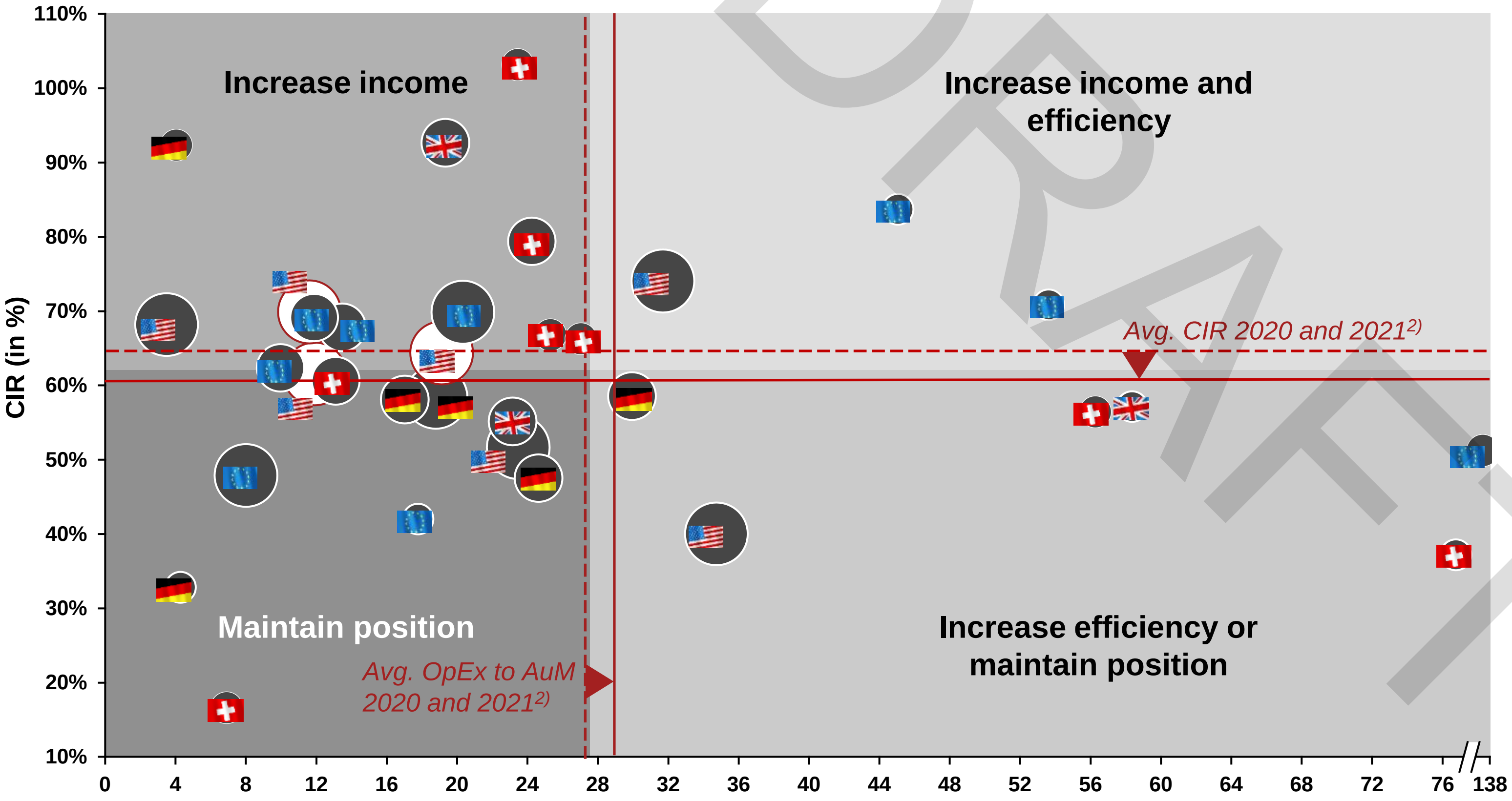
Insights

- In comparison with our 2020 sample study of Asset Managers:
  - **AuM grew by 18.5%** vs. MSCI World: 22.4% (6.6%[3)] vs. 15.9%)
  - Profit **increased by 22%** (-14%[3)]) on average (by €0.47m per €bn AuM)
  - Almost all AMs in our sample were able to **increase their profit per AuM**, a very different result to last year's study
- The **most profitable AMs** are mostly **small** and with **active** and/or **PE** type / private markets business models similar to (all with at least around 50% share of equities)

1) Sample of 28 Asset Managers with 2021 and 2022 figures 2) For sample included in 2020 study;
3) 2020 numbers for comparison
Source: Company reports 2021; Strategy& analysis

Soaring revenues overcompensated rising expenses – half of Asset Managers with continuous cost discipline

2021 Outside-in competitive cost benchmarking[1)]



Predominantly managed: Passive Active

Size of bubble: small (AuM ≤ €250bn), mid (€250bn < AuM < €1,000bn), large (AuM ≥ €1,000bn)

Insights

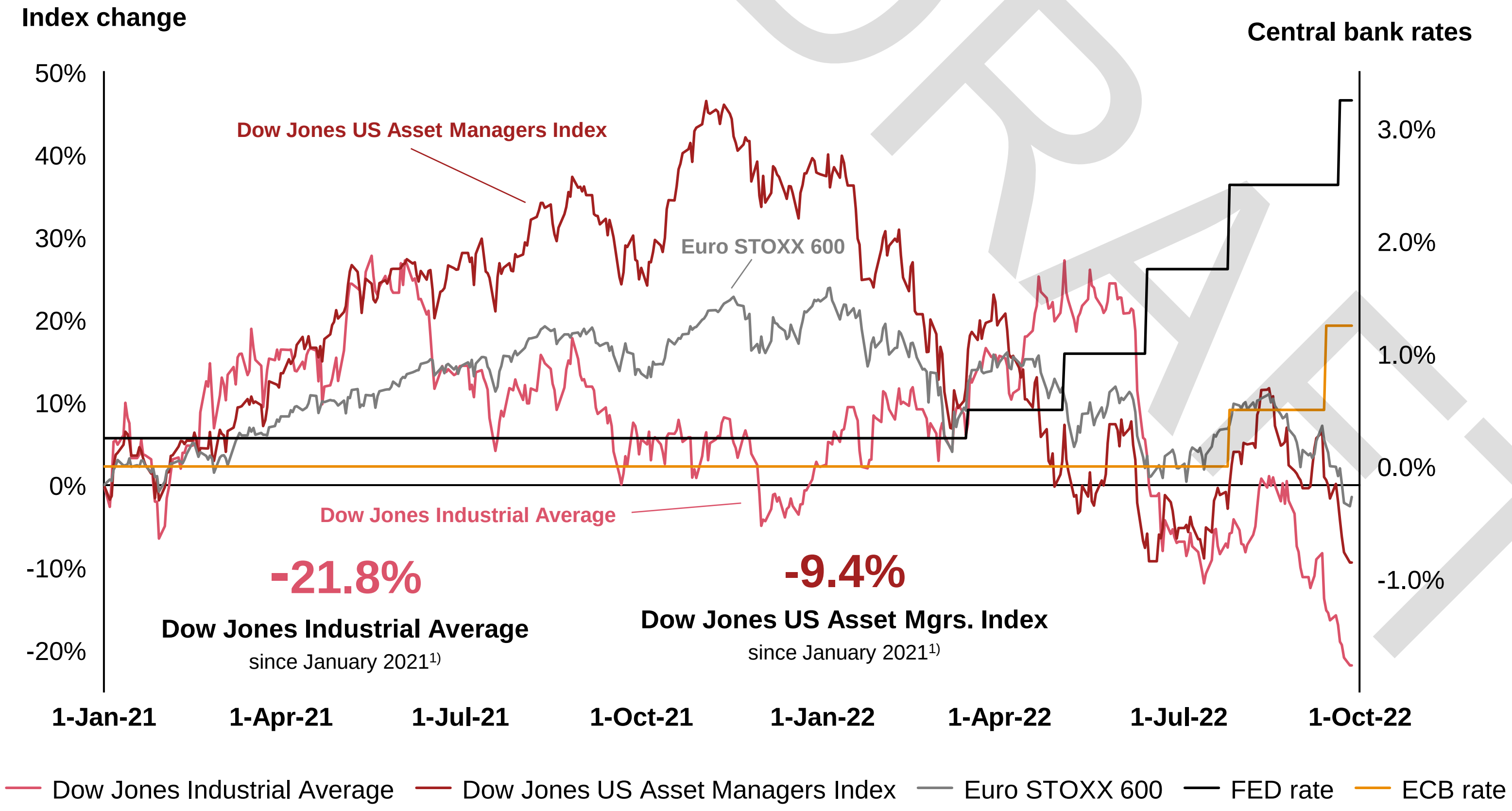
- **Significant revenue increases** led to Asset Managers being able to further reduce the CIR despite (on average) rising operating costs
- **Half** of Asset Managers kept up cost discipline from prior year and **reduced OpEx per AuM** (by 1.7bps) while **OpEx per AuM of the other half increased** by 5.1bps
- Group of Asset Managers with **highest cost increases** are smaller AM with **active investment management models**
- Most of them however generate a high income and operate profitably **with high cost and low CIR**
- However, cost reductions may be necessary as **revenue growth might slow through global uncertainty**

1) Sample of 28 Asset Managers with 2021 figures; 2) For sample included in 2020 study
Source: Company reports 2021; Strategy& analysis

Overall declining stock markets and rising interest rates have put pressure on Asset Managers' valuations

Development of Asset Managers' valuations

Dow Jones Industrial Average vs. US Asset Managers Index and central bank rates



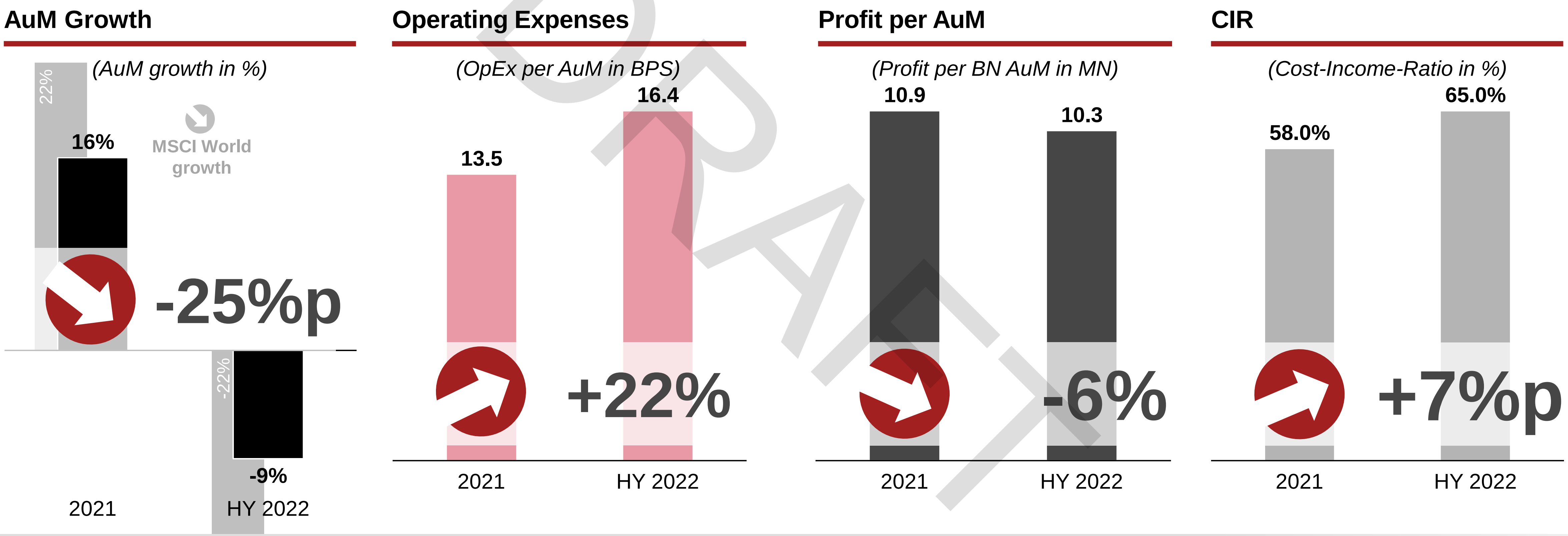
Comments

- The Dow Jones Industrial Average index has decreased by -21.8% since January 2021
- In the same time period US Asset Managers have lost on average -9.4% of their market capitalizations
- In light of persistently high inflation rates, central banks have enforced a global interest rate reversal (e.g. Fed having raised the base rate to 3.25% in September 2022)
- Major drivers for Asset Managers' valuation decreases are profitability issues due to reduced fee-based income as overall markets decline and rising interest rates
- With further rising interest rates and overall decreasing market valuations, it is likely that valuations of Asset Managers will remain under pressure

1) Period covers time span between 1 Jan 2021 and 27 September 2022
Source: Bloomberg, Strategy& analysis

This already heavily impacted AuM and Asset Managers' profitability in HY 2022

HY 2022 trend



The reduced asset prices put cost discipline back on the agenda, which has been not in focus of many AM during continuously rising asset prices over the past years

1) Sample of 10 Asset Managers
Source: HY reports, Strategy& analysis

In order to counteract the profitability pressure, Asset Managers need to focus on realigning their cost structure

Strategic considerations for Asset Managers

Status quo

Revenue pressure

- Looming recession risk
- Decreasing AUM growth
- Further pressure on OpEx/AuM
- Stagnating/ increasing OpEx
- Increasing salaries and inflation

Asset Managers' profits are declining

Cost pressure

Measures to counteract Asset Managers' profitability pressure

Top-line growth acceleration	Bottom-line optimization	
Product and distribution strategy review	**Cost structure realignment**	**Organizational rightsizing and M&A**
• **Achieve higher share of wallet** with existing partners by e.g. extending service portfolio • **Integrate into open platforms** to increase reach of product offering • **Target high growth areas** (e.g. equity offerings and APAC region)	• **Protect "good costs"** that help to differentiate capabilities (e.g. digital innovation, etc.) • **Reduce or eliminate "bad costs"** (e.g. non-performing sales channels, etc.) • **Aim for best-in class cost levels** in non-differentiating capabilities (e.g. Finance, Back-office support, etc.)	• **Benchmark current organizational size** and potentially restructure • Ensure **org. flexibility** and prepare cost base for external shocks (pandemics, wars, etc.) • **Identify JV/M&A opportunities** to leverage cost synergies and increase scale effects
Capitalize on high-growth areas to counteract declining AUM growth	**Improve OpEX/AUM and strengthen differentiating capabilities**	

Source: Strategy&

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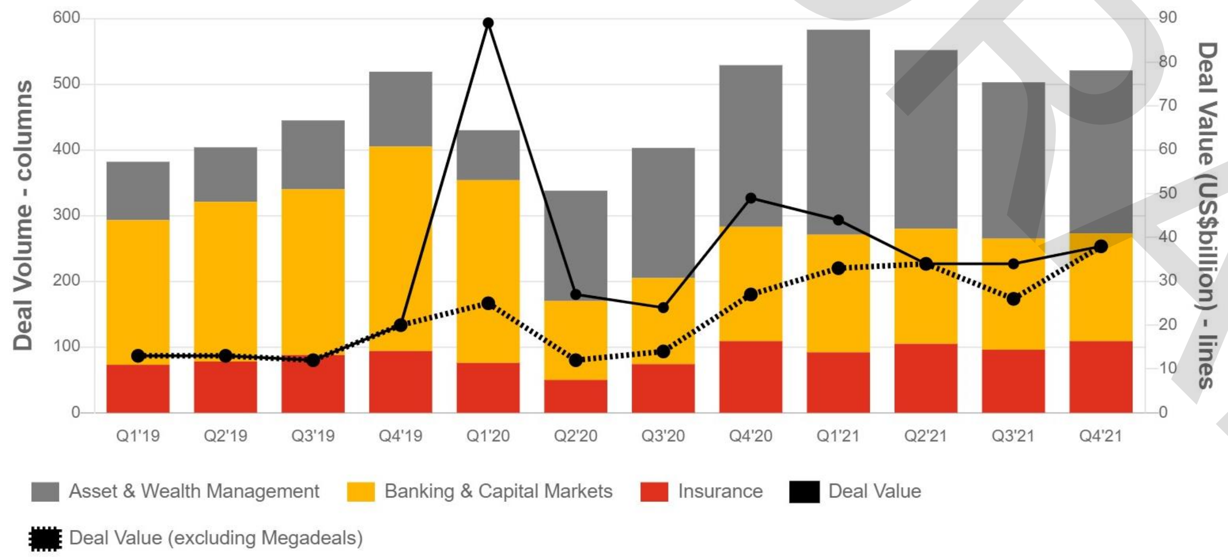
AWM Deals momentum

In recent years AWM has been the largest Financial Services Subsector in terms of number of Deals and Deal volume

Industry Sentiment on M&A in the AWM industry

EMEA Financial services deal volume and values FY19 – FY21



Sources: Refinitiv, Dealogic and PwC analysis

"The AWM sector is holding up well amid the uncertain global macroeconomic and geopolitical environment. Despite the weaker performance of capital markets in the first half of the year, strong investment appetite remains, and the AWM deals market is still active."
PwC Germany, June 2022

"The decline in assets, and negative markets, are threatening to weaken the sector's profitability and could ultimately help drive industry M&A"
Fitch, August 2022

"While deal markets in the first half of 2022 have cooled slightly relative to the scorching hot activity seen in 2021, AWM deal volume continued at a strong pace in the first half of 2022"
PwC US, July 2022

"M&A consolidation activity is hotter than it has ever been in the past 15 years."
White & Case, 2022

Compared to other industries scale plays the predominant driver for M&A in AwM

Driver and prevalence for M&A

Deals by stated strategic intent* (%)

	Capabilities access	Product extension	Geography extension	Consolidation	Diversification
AWM	12%	12%	26%	48%	2%
Industry average	13%	29%	21%	35%	3%

Capability access deals, for which the explicitly stated goal is to acquire some capability that the target has and the acquirer wants

Product or category adjacency deals, in which a company buys a business with a product, service or brand that is related, but not identical, to its existing business categories

Geographic adjacency deals, in which the acquirer uses M&A to expand into a new location

Consolidation deals, which intend to realise synergies and economies of scale, usually between two companies with similar businesses

Diversification deals, which allow companies to enter a new or unrelated sector, typically with the rationale of insulating results against the business cycle.

***Based on an examination of 800 deals done in 2021**

Source: Strategy&, PwC “Doing the right Deals”

Increased M&A activity in the Asset Management sector in Europe (1/2)

Recent M&A transactions continue to drive size and growth of Asset Managers and asset platforms

2021

02
- **BPCE Group** acquires **Natixis SA** for **€3.7bn** — AuM €1.2tn; P/AuM 3.1%
- **Aema Groupe** acquires **Aviva France** for **€3.2bn**

04
- **Amundi** bids on **Lyxor** (SGs ETF provider) for **c. €825m** — AuM €124bn; P/AuM 0.7%
- **Allfunds IPO** at **Euronext Amsterdam** — AuA €1.2tn; AuM €528bn; MC €9bn

05
- **Deutsche Boerse** acquires **49% stake** in **UBS fund distribution platform Fundcenter** for **€356m** — AuA €300bn; P/AuA 0.1%

06
- **JP Morgan Chase** acquires **Nutmeg Saving and Investment** for **€818m** — AuM €3.5bn; P/AuM 23.2%
- **PineBridge** acquires **Sigma Capital Group** for **€240m**

07
- **Altarea Cogedim** acquires **Groupe Primonial SAS** for **€2.1bn** — AuM €26bn; P/AuM 8.1%
- **Raymond James Financial** acquires **Charles Stanley Group** for **c. $387m** — AuM $38bn; P/AuM 1.0%

08
- **Apex Group** acquires **Sanne Group** for **GBP 1.5bn** — AuA GBP500bn; P/AuA 3.0%
- **Goldman Sachs** acquires **NN Investment Partners** for **€1.7bn** — AuM €298bn; P/AuM 0.6%

09
- **BPCE Group** acquires remaining **29% stake** in **Natixis SA** for **€3.7bn** — AuM €1.2tn; P/AuM 0.3%
- **Nordic Capital** sell **Swedish fund distributor MFEX** to **Euroclear** — AuA €320bn

10
- **DWS Group** sell 70% stake in **IKS** to **BlackFin Capital Partners** — AuA: €115bn
- **T. Rowe Price** acquires **Oak Hill Advisors** for **$4.2bn** — AuM $53bn; P/AuM 7.9%

11
- **Franklin Resources** acquires **Lexington Partners** for **$1.8bn** — AuM $34bn; P/AuM 5.1%
- **abrdn** in final talks to acquire **Interactive Investor** for **£1.5bn** — AuA £55bn; P/AuA 2.7%

2022

01
- **Investor Group** acquires **Systematica Investments** — AuM $12.3bn

02
- **Brooks Macdonald Group** acquires **7IM Holdings** for **$406m** — AuM $25.6bn; P/AuM 1.6%

04
- **Universal-Investment** acquires **European Fund Administration** — AuA >€140bn

05
- **UBS** acquires **Wealthfront** for **$1.4bn** — AuA $27bn.; P/AuA 5.1%

Now

Asset Management | Asset Servicing | Platform

Note: AuA/AuM figures represent the acquired AuA/AuM; P represents price
Source: Mergermarket; PwC analysis

Increased M&A activity in the Asset Management sector in Europe (2/2)

Ongoing trend for industry consolidation in the Asset Management sector

2017

01 – Montagu Private Equity acquires Universal-Investment
AuA €280bn

07 – **Amundi** acquires **Pioneer** for **€3.5bn**
AuM €222bn | P/AuM 1.6% | P/E 16.6x | EV/EBITDA 11.4x

08 – **Invesco** acquires **Source** for c. **$500m**
AuM $25bn | P/AuM 2.0%

08 – **Standard Life** acquires **Aberdeen** for **£3.8bn**
AuA £308bn | P/AuA 1.2%

2018

03 – **DWS IPO**
MC €6.5bn

04 – **WisdomTree** acquires **ETF Securities** for **$523m**
AuM $18bn | P/AuM 3.0%

04 – Hellman & Friedman acquires Financial Engines for $3.0bn
AuM $169bn | P/AuM 1.8%

06 – Lyxor acquires ComStage ETF
AuM $10.5bn

10 – **Invesco** acquires **OppenheimerFunds** for **$5.7bn**
AuM $246bn | P/AuM 2.3%

2019

03 – **Brookfield** acquires **61% stake** in **Oaktree Capital** for **$4.7bn**
AuM $120bn | P/AuM 6.4%

05 – Charles Schwab acquires USAA for $1.8bn
AuM $90bn | P/AuM 2.0%

09 – **Mitsubishi UFJ** acquires **Colonial First State Global AM** for **AUD4.0bn**
AuM AUD210bn | P/AuM 1.9%

2020

01 – Clearstream acquires 51% stake in UBS fund distribution platform Fundcenter for CHF389m
AuA CHF223bn | P/AuA 0.2%

02 – **Jupiter AM** acquires **Merian GI** for **£370m**
AuM £22bn | P/AuM 1.7%

02 – Franklin Templeton acquires Legg Mason for $4.5bn
AuM $804bn | P/AuM 0.6%

06 – **Natixis cooperates** with **La Banque Postale** (to combine their FI and insurance related AM businesses)
AuM €415bn

06 – **Amundi** acquires **Sabadell AM** for **€430m**
AuM €22bn | P/AuM 2.0% | P/E 13x

10 – **Morgan Stanley** acquires **Eaton Vance** for **$6.5bn**
AuM $507bn | P/AuM 1.3%

12 – Universal-Investment acquires Metzler Ireland
AuM €3bn

2021

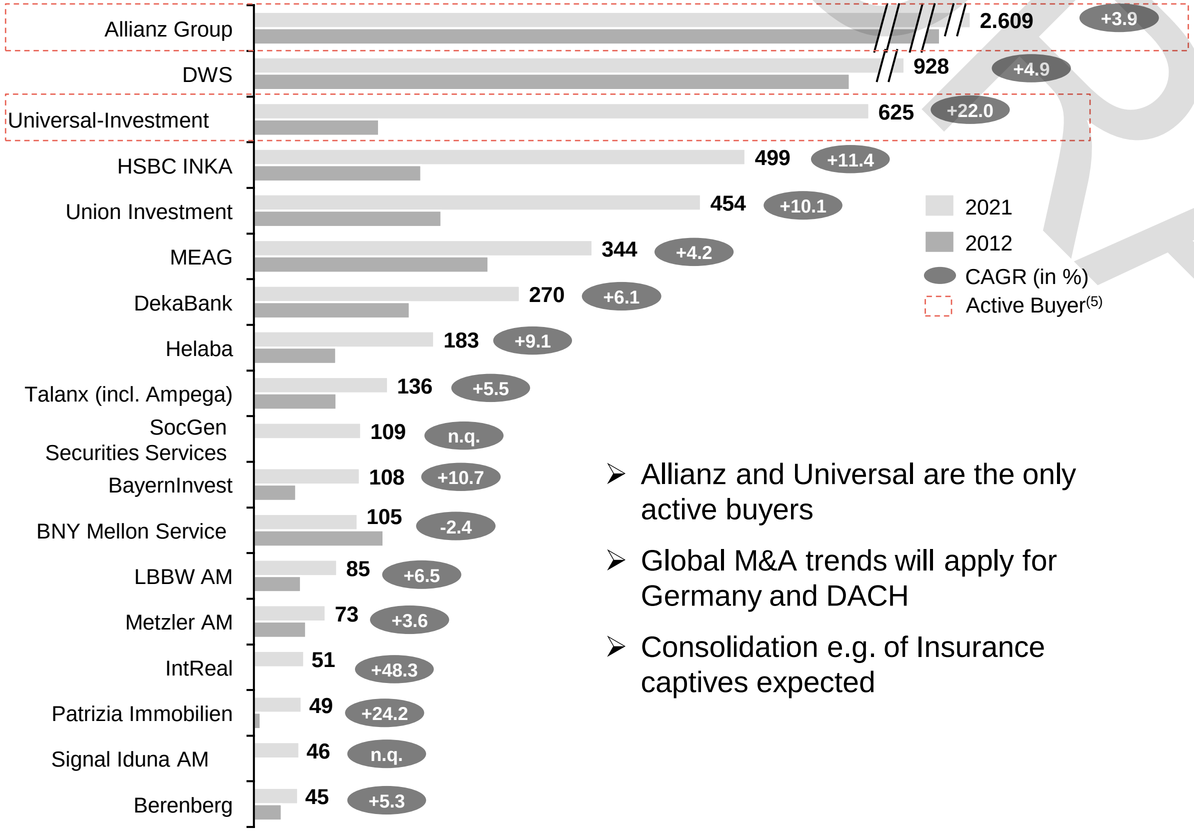
Asset Management | Asset Servicing | Platform

Note: AuA/AuM figures represent the acquired AuA/AuM; P represents price
Source: Mergermarket; PwC analysis

Only a few German player are active on the Buyside, yet industry consolidation and M&A activity is expected

German Asset Management and Servicing league table

Growth of largest German Asset Managers from 2012 to 2021 (in € bn)



- Allianz and Universal are the only active buyers
- Global M&A trends will apply for Germany and DACH
- Consolidation e.g. of Insurance captives expected

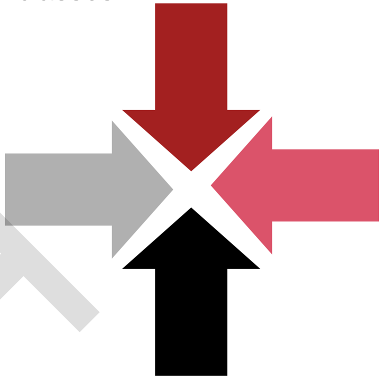
M&A drivers in Asset Management

Scale through consolidation

Small-/Mid-sized firms will continue to join forces to build capability in higher growth alternative asset classes

Dry-powder

Large investors will continue to acquire balance sheet light assets and scalable / platform oriented businesses



Niche strategy

Some AMs are divesting businesses that hurt their performance. In the process of specialisation Insurance Captives might be targets for divestures

Rise of the ecosystems / platforms

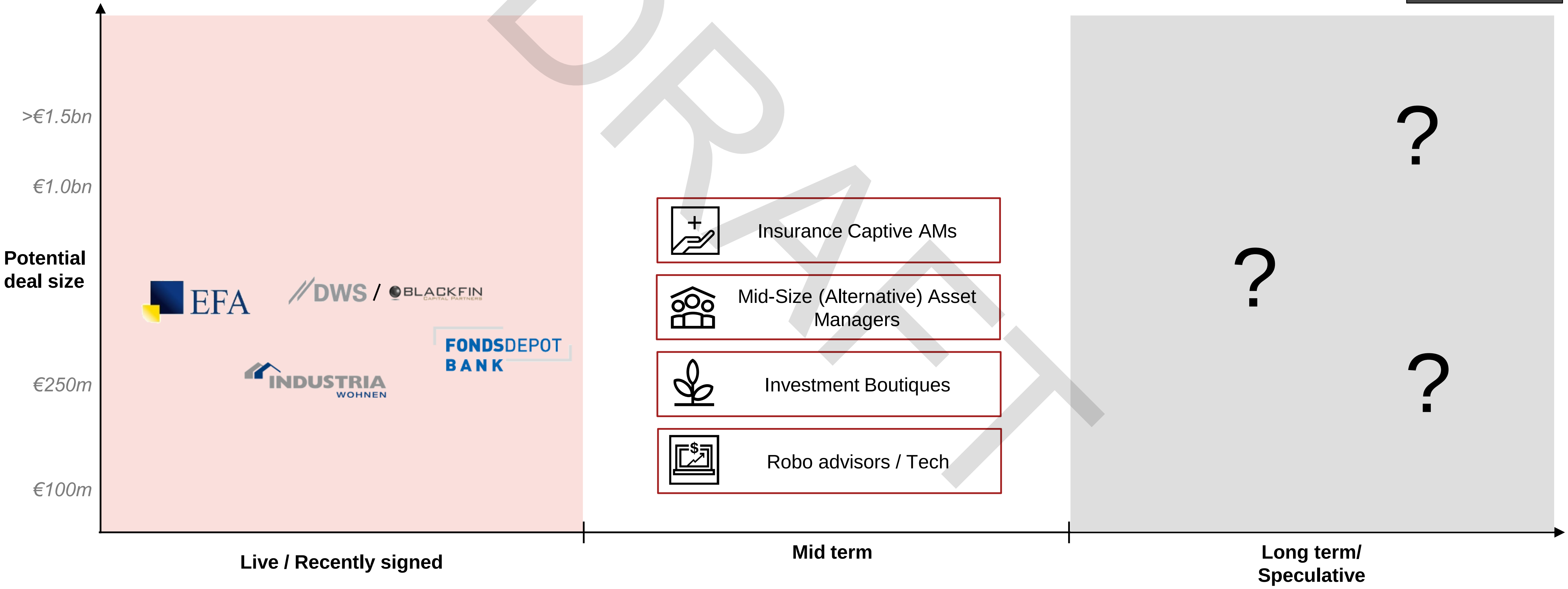
Ecosystems providing end-to-end solutions will allow mid-size AMs to focus on their most valuable clients and products

Source: PwC analysis

Investor appetite for Deals in Germany is high, yet only few targets are on the market

German M&A weather map - AWM

ILLUSTRATIVE



Source: PwC analysis

Rising costs, new market players, changing customer preferences are exerting pressure, with implications on strategies & business models.

Change factors and M&A Deal Drivers

Exogenous change factors in Asset Management

Pressure on Margins
Given the high pressure on profitability, cost reduction as well as strategic positioning should be addressed with the highest priority. The Asset Management industry is facing rising costs (e.g. IT, Cybersecurity), lower profit margins, more price transparency and new market entrants.

Passive Investments
Thanks to lower fees compared to active management and the equity market rally, passive investments have experienced phenomenal growth. ETFs and index trackers are attracting more investors and outperforming active management overall.

Alternative asset classes
Real estate, infrastructure, private equity and private debt are very popular among institutional investors in Germany. In the near future, most institutional investors plan to increase their exposure to alternative asset classes.

Technical disruption
Blockchain and AI can help Asset Managers reduce operating costs. Big tech companies such as Amazon as well as Google could enter the distribution business. With their influence and investor penetration, they could put massive fee pressure on managers.

Regulation & ESG
Regulations after the financial crisis, such as AIFMD[(1)] and MiFID II [(2)], have still an impact on the industry as well as regulations relating to data protection. Comprehensive ESG positioning is necessary to serve the growing customer segment with an eco-social focus. Institutional investors account for around 93% of sustainably invested funds in Germany.

M&A Deal Driver

- Increased competition and the need for scalability leads to sector consolidation
- Erosion of mid-tier asset managers, with large assets management players increasing their market power
- Platform oriented business models interesting for PE/ Financial Sponsors with interest in scalable, and transactional business models

Increasing interest in acquisitions, scarce of suitable targets and high competition in auctions observable

Note: (1) Alternative Investment Fund Managers Directive (2) Markets in Financial Instruments Directive II
Source: PwC Asset Management Perspectives; ThoughtLab study: Wealth and asset management 4.0; PwC analysis

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Thank you

We look forward to discuss potential Deal Opportunities in the future.

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