

strategy&

Part of the PwC network

Infected with COVID-19

How asset managers can recover

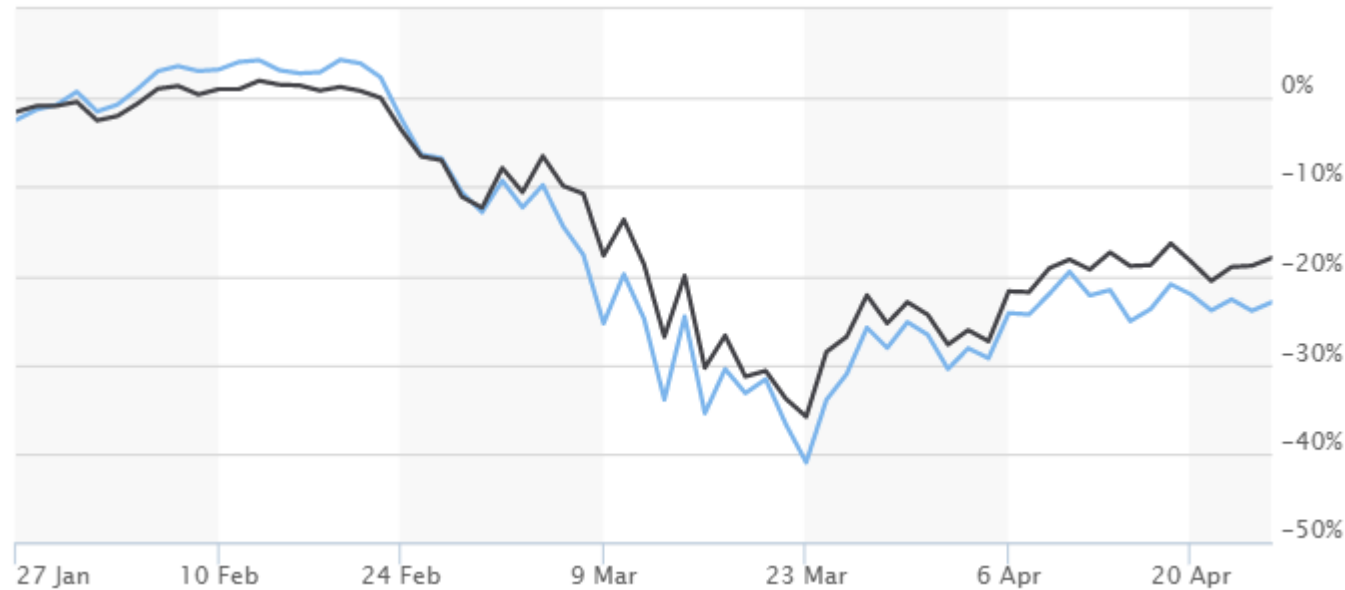
Asset management industry perspective



The COVID-19 crisis has hit asset managers especially hard, with some losing almost 50% of their valuation

Impact of COVID-19 on asset managers valuation

DOW JONES INDUSTRIAL AVERAGE VS. ASSET MANAGER INDEX



-17,99%
Dow Jones
Industrial Average
in the last 3 months¹⁾

-22,98%
Dow Jones
US Asset Managers Index
in the last 3 months¹⁾

PERFORMANCE OF SELECTED AM

DWS	-24,66% in the last 3 months ¹⁾
Amundi Asset Management	-21,57% in the last 3 months ¹⁾
Jupiter	-45,22% in the last 3 months ¹⁾
Partners Group	-18,74% in the last 3 months ¹⁾

Moody's downgrades the asset management industry outlook to "negative"

So far, the end of the crisis is not in sight and a mild scenario is getting more improbable with continuing lock-downs

COVID-19 scenarios

*"We have witnessed the world economy coming to a **standstill**. We are now in **recession**. It is way worse than the global financial crisis"*

Kristalina Georgieva,
Managing Director IMF

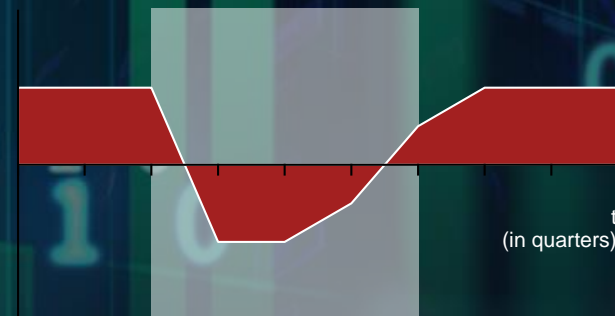
MILD V-SCENARIO

GDP change (illustrative)



■ = crisis and recovery period

SEVERE U-SCENARIO



FATAL L-SCENARIO




With **great uncertainty** about the **final extent** and **end** of the crisis, the **outlook** for asset managers is **negative**

With high pressure on profitability already before COVID-19, significant AuM leakage worsens the AM industry outlook

Root causes for the decline of AM valuations and corresponding effects (indicative)

CHALLENGES IN AM BEFORE COVID-19


Slow growth of AM in Europe
(2012 to 2017)

Germany & Switzerland

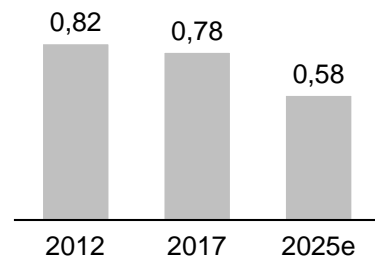


Top 20 AM worldwide

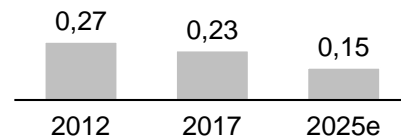



Pressured management fees

Active Mgmt. Fees Europe (in %)



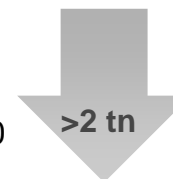
Passive Mgmt. Fees Europe (in %)



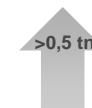
ADDITIONAL CHALLENGES CAUSED BY COVID-19


Sharp decline in AuM

Combined outflows in March '20



Combined inflows in March '20




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

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

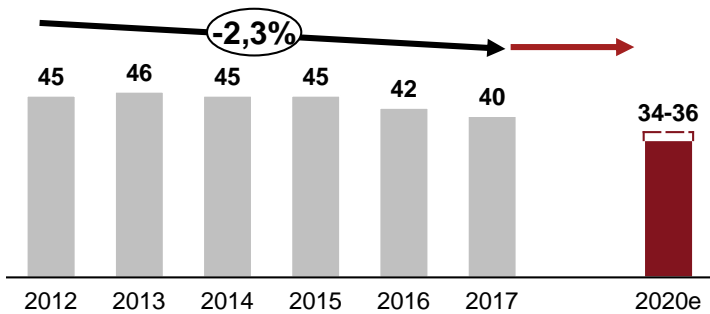
Costs and strategic positioning on top of the agenda

Asset managers have been able to reduce costs in the past but a sharp decline in AuM will negatively impact margins

Margin Development (indicative)

FINANCIALS OF GLOBAL AMs (IN BPS)

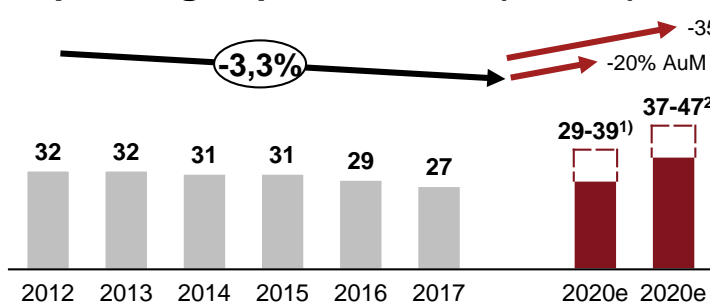
Revenue/ AuM (in BPS)



Revenue per AuM development influenced by:

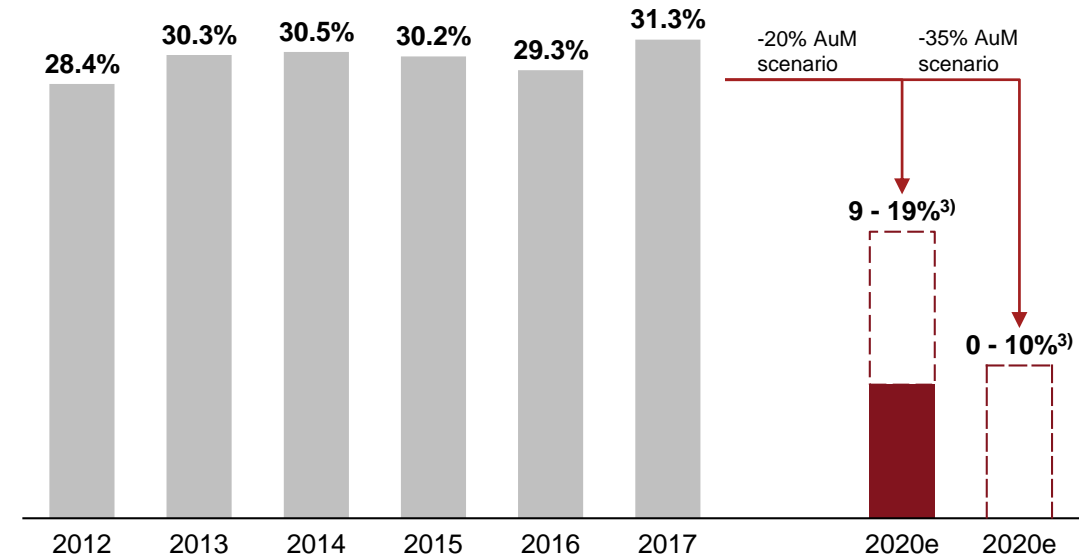
- ⊖ Continued intense **competition**
- ⊖ Shift from **discretionary** to less profitable mandates
- ⊕ Share of **fixed fees** on total revenues

Operating Expenses/ AuM (in BPS)



Constant operating expenses and sharp decline in AuM lead to an **increase in OPEX/ AuM**

OPERATING MARGIN OF GLOBAL AMs (IN %)

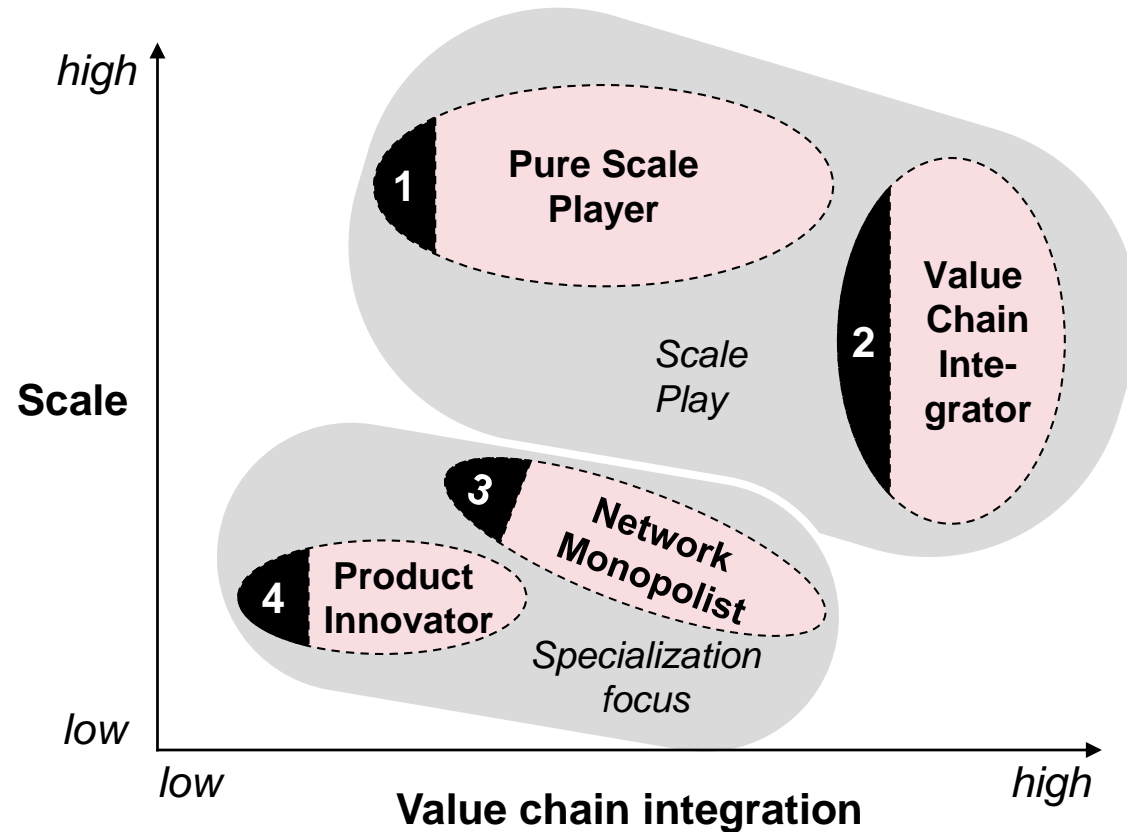


Constant operating expenses (short-term) and a sharp decline in AuM lead to a **sharp decrease in operating margins**

1) Assumption: 20% AuM decrease, OPEX constant; 2) Assumption: 35% AuM decrease, OPEX constant; 3) Highly-dependent on AM revenue model
Source: PwC Global AWM Research Centre analysis based on Lipper, annual reports, Bloomberg and Autonomous; Strategy& analysis

We see four types of asset managers in the European market

Types of asset managers





Type of AM	Description
1 Pure Scale Player	<ul style="list-style-type: none"> Holistic offering and coverage paired with relatively low costs Standardization and operational excellence Leverage global platforms
2 Value Chain Integrator	<ul style="list-style-type: none"> Aggressive extension of existing businesses into additional, profitable parts of value chain Either Front-to-Back, Back-to-Front or across sectors
3 Network Monopolist	<ul style="list-style-type: none"> Part of captive FS network / group and thus close relationship to specific clients Product offering tailored to target client segment, broad enough to keep competitors out
4 Product Innovator	<ul style="list-style-type: none"> Niche, innovative positioning, incl. alternatives Strong brand around investment capabilities Prominent fund/ PE manager / "star"

The impact and reaction to the COVID-19 crisis depends on the type of asset manager



Pure scale players are hit the heaviest since they rely mostly on AuM scale

Impacts of COVID-19 in AM

Type of asset manager		SHORT-TERM IMPACT <i>1-3 months</i>		LONG-TERM IMPACT <i>3+ months</i>
1 Pure Scale Player	<ul style="list-style-type: none"> • Massive outflow of AuM and margin decrease • High system traffic caused by high trading volume • ... 	●●●	<ul style="list-style-type: none"> • Upswing potential in economic recovery, profiting from higher cost focus of investors 	●●○
2 Value Chain Integrator	<ul style="list-style-type: none"> • Massive outflow of AuM and margin decrease • High system traffic caused by high trading volume • Potential compensation of lost revenue through other revenue streams (e.g. BlackRock with Aladdin) 	●●○	<ul style="list-style-type: none"> • Use possibly advantageous cost position after first effects of crisis withdraw and sales competition starts 	●●○
3 Network Monopolist	<ul style="list-style-type: none"> • Significant margin decrease, but less AuM outflow • Operational strain to shift assets (e.g. from equities) • Increased pressure on market outperformance 	●○○	<ul style="list-style-type: none"> • Stable sales network throughout the crisis and in the recovery phase • Without critical mass and strong sales network and combined with a bad crisis performance possible candidate for acquisition 	●●○
4 Product Innovator	<ul style="list-style-type: none"> • Selective outflow of AuM and margin decrease, depending on offered products • Increased pressure on market outperformance • Increased difficulty charge and argue for high management fees 	●●○	<ul style="list-style-type: none"> • Strongly dependent on crisis management and product focus (e.g. lower expected impact on ESG specialized AM) • Without critical mass and combined with a bad crisis performance potential candidate for acquisition 	●○○

All types of asset managers need significant short-term cost-cutting measures and mid-term strategy adjustments

Actions to mitigate the impacts of COVID-19 in AM

Type of asset manager		STABILIZE Navigating through the crisis <i>1-3 months</i>		STRATEGIZE Winning through the crisis <i>3+ months</i>
1 Pure Scale Player		<ul style="list-style-type: none"> • Use high trading volume and increase share lending • Short-term cost cutting (compensation cuts) and analysis of potentials to adapt cost structure in the long-term • Enhance business continuity management 		<ul style="list-style-type: none"> • Long-term cost cutting (outsourcing/ offshoring, organizational right-sizing, process excellence) • Footprint optimization • Look out for possible acquisition targets to increase scale
2 Value Chain Integrator		<ul style="list-style-type: none"> • Short-term cost cutting (compensation cuts) and analysis of potentials to adapt cost structure in the long-term • Intensify push towards digital end-to-end integration 		<ul style="list-style-type: none"> • Long-term cost cutting (operating model redesign, supply management, capabilities zero-basing, IT leverage) • Target opportunities to increase business of value chain integrations of sub-scale clients with increased cost focus • Look out for possible acquisition targets to extend value chain
3 Network Monopolist		<ul style="list-style-type: none"> • Short-term cost cutting (compensation cuts) • Reduce risk exposure • Focus on communication to sales network and shareholders to stay close to their needs • Communicate value proposition to network and investors 		<ul style="list-style-type: none"> • Long-term cost cutting (e.g. portfolio rationalization, outsourcing) • Strategic portfolio shift towards more crisis resistant investments (e.g. ESG, Health) • Strengthen credibility and value for the network (esp. as captive) • Look for opportunities for joint ventures
4 Product Innovator		<ul style="list-style-type: none"> • Short-term cost cutting (compensation cuts) and analysis of potentials to adapt cost structure in the long-term • Revisit value proposition and pitch book in the light of actual investment performance vs. market performance • Consider and market new, more risk averse products 		<ul style="list-style-type: none"> • Long-term cost cutting (e.g. capabilities zero-basing, IT leverage) • If possible: make use of better crisis performance in external communication and marketing • Strategic portfolio shift towards more crisis resistant investments (e.g. ESG, health, alternatives) • Look for opportunities for joint ventures

Your Strategy& contacts



Dr. Philipp Wackerbeck

Partner, Head of Financial
Services Europe

+49 170 2238 659

[philipp.wackerbeck@
strategyand.de.pwc.com](mailto:philipp.wackerbeck@strategyand.de.pwc.com)



Dr. Utz Helmuth

Director, Strategy& Head
Asset Management GSA

+41 77 409 4571

[utz.helmuth@
strategyand.ch.pwc.com](mailto:utz.helmuth@strategyand.ch.pwc.com)

Thank you

strategyand.pwc.com

© 2020 PwC. All rights reserved.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see pwc.com/structure for further details.

Disclaimer: This content is general information purposes only, and should not be used as a substitute for consultation with professional advisors.