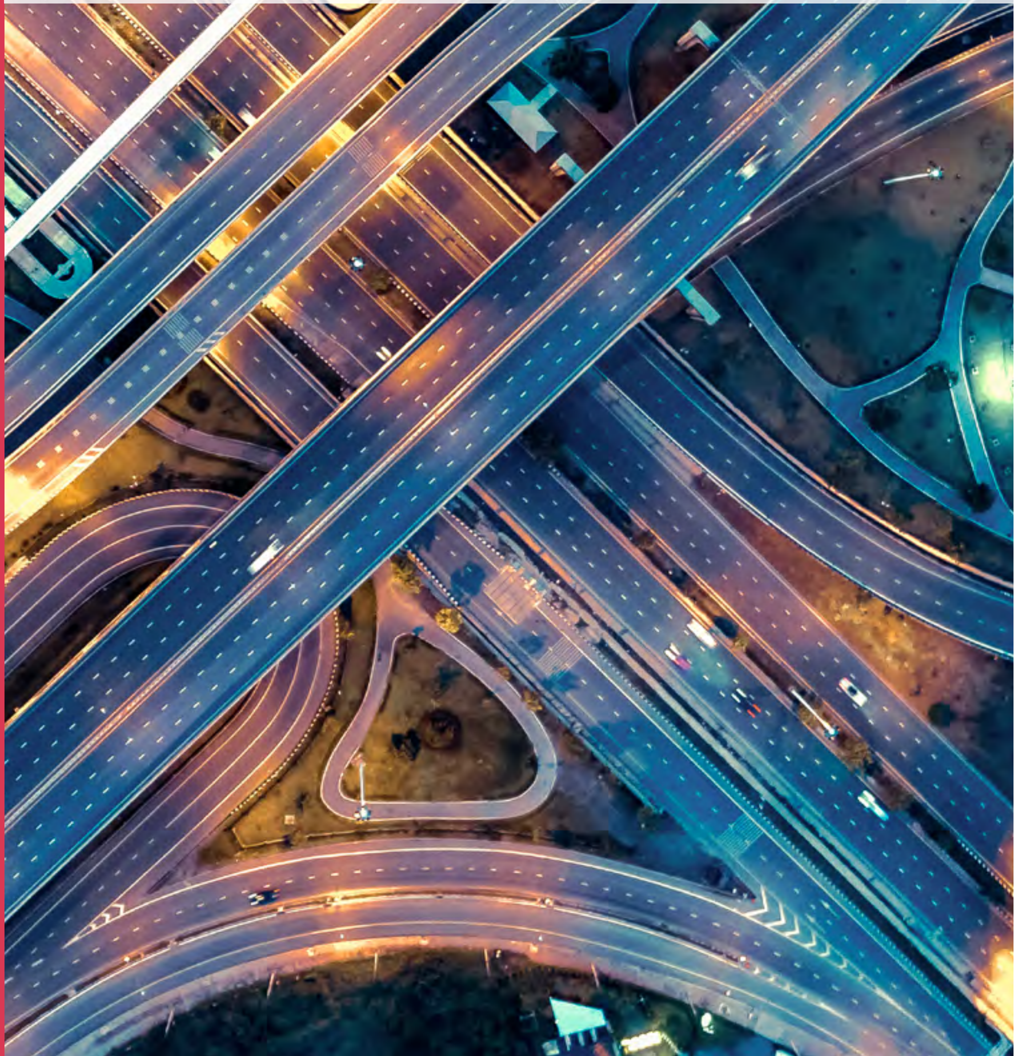
# AWM: From 'A brave new world' to a new normal

A LOOK AT THE PAST AND PRESENT


pwc

> *AWM: From 'A brave new world' to a new normal" takes a past and present look at the asset and wealth management (AWM) industry. In this report, we highlight and contextualise the bold predictions we made in 2014's 'A Brave New World' and 2017's 'Embracing Exponential Change'. Now that the future has arrived, we are holding ourselves to account, assessing these predictions against the current state of the industry and accounting for any alignments or deviations.*



## Executive Summary

The asset and wealth management (AWM) revolution is continuing at pace. The industry has entered the new decade on a stronger footing than ever, with the decade-long bull-run having attracted an increasing volume of investors to the industry. Total industry assets surpassed the expectations set in our 2014 'AWM 2020' report of USD 101.7tn, reaching USD 110.9tn as of the end of 2019. This strong asset growth was particularly bolstered by the proliferation of low-cost passive products and alternative asset classes, as well as the rising interest in ESG investments.

However, the growth trajectory was reversed with the outbreak of the COVID-19 pandemic. The subsequent market volatility and supply chain disruptions caused a major hit to the global economy. While the industry has so far shown a high degree of resilience in comparison with the real economy – with asset levels quickly recovering - the future remains uncertain and future asset growth is largely dependent on the rate, scale, and shape of the economic recovery. While the pandemic has not yet brought about any primordial changes for managers; it has magnified the paradigm shift that has been occurring within the industry in recent years, accelerating a number of pre-existing trends and highlighting various shortcomings- making them more urgent than ever.

In "The Power To Shape The Future", a separate report, we assess how the global pandemic affected the industry, taking a deep dive into both the short and long-term impacts of the crisis from both a quantitative and trend level. We then go on to provide insights and forecasts as to how we predict the industry will recover and progress as we emerge into a post-COVID-19 society. We then provide some key actions and suggestions that asset managers should assess and integrate in order to ensure success in a post-COVID-19 world marked by new and magnified trends.

# Past: From ‘a new world’ to a ‘new normal’: what has changed? Predictions vs Reality

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In a ‘Brave New World’, we made a number of predictions and estimations as to what the global asset management industry would resemble by the year 2020. Now that 2020 is upon us, we are holding ourselves to account as to whether our predictions materialised.

| Prediction | Realisation |
| --- | --- |
| Huge rise in assets and shift in the investor base | ●●●●●● |
| Outcomes matter | ●●●●●● |
| Buyers’ market (fee models are transformed) | ●●●●●● |
| Technology: do or die | ●●●●●● |
| Distribution is redrawn | ●●●●○○ |
| Funding the future | ●●●●●● |
| A new breed of global asset managers | ●●●○○○ |

## Past: From ‘a new world’ to a ‘new normal’: what has changed? Predictions vs Reality

### Huge rise in assets and shift in the investor base

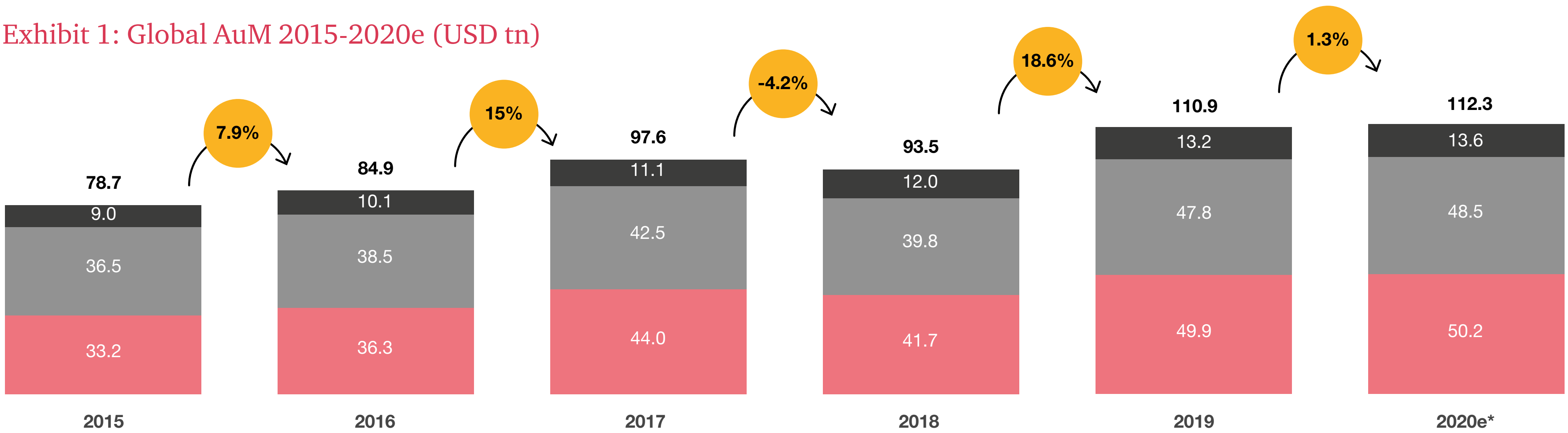
In 2014, our forecast model projected global AUM to hit approximately USD 101.7tn by 2020. In our update in 2017 we increased our estimations for the industry to reach USD 111.2tn AuM by 2020; with growth driven largely by institutional investors (pension funds, High Net Worth Individuals (HNWIs), and Sovereign Wealth Funds (SWFs), increased wealth from the South America, Africa, Asia and the Middle East (SAAAME) region, and opportunities for AWMs to tap into these new wealth pools to create value.

In reality, AuM is set to surpass our estimates for 2020 with global assets growing faster than we expected up until the end of 2019 - posting a 9.0% Compound Annual Growth Rate (CAGR) from 2015 to reach USD 110.9tn as of the end of 2019 (cf. exhibit 1). Even with the COVID-19 crisis, we believe the industry will achieve an AuM of between USD 109.2tn and USD 114.1tn by the end of 2020; highlighting the current optimism within capital markets.

This rise in assets was particularly bolstered by pension funds, HNWIs and sovereign wealth funds increasing allocations into alternative investments.

There was also an uptake within the retail segment, with an influx of millennials and Gen Z working adults looking to create long term wealth, as well as baby boomers looking to accumulate wealth from retirement funds. The persistent low/ negative interest environment has encouraged a further shift of investor assets into investment funds as investors increasingly search for yield. However, the real economy is still suffering from the impact of the pandemic and it remains to be seen if and when this could impact capital markets and the AWM industry.

### Exhibit 1: Global AuM 2015-2020e (USD tn)




Source: PwC AWM Market Research Centre, Refinitiv

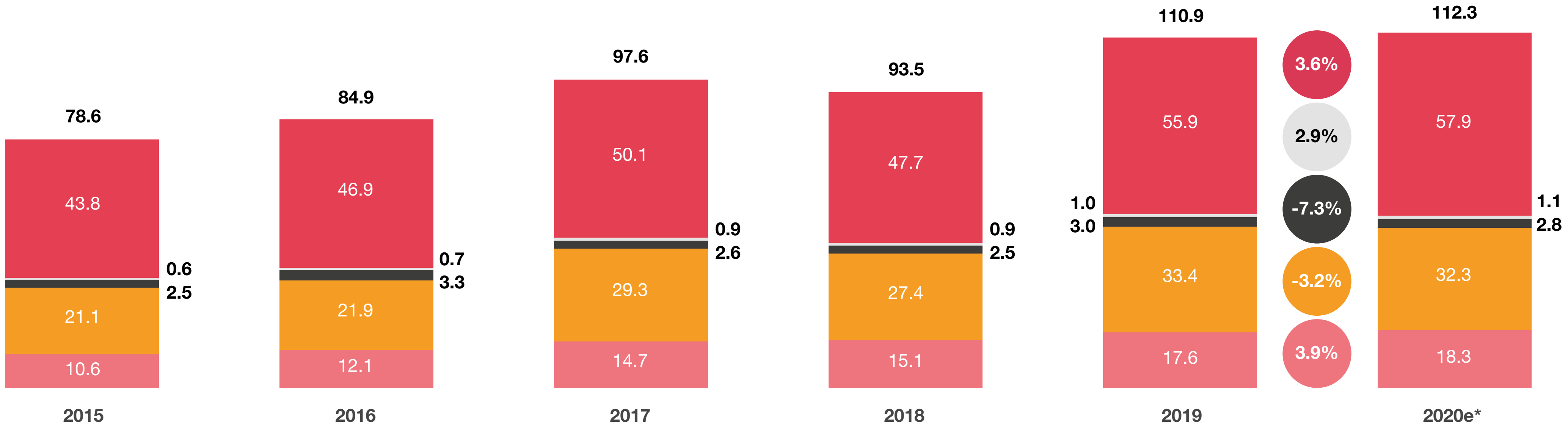
* Estimates are based on our base-case scenario

# Past: From 'a new world' to a 'new normal': what has changed? Predictions vs Reality

Furthermore, as expected, this strong asset growth was bolstered by the proliferation of the SAAAME region, whose growth exceeded that of developed economies. Total AuM growth within MEA and APAC aligned with our predictions– with overall assets growing at a respective 13.6% and 13.5% CAGR from 2015 to 2019 (cf. Exhibit 2).

Our predictions for the Latin American region, on the other hand, did not materialise. We predicted that LATAM assets would reach 4.4tn by 2020, however we now expect them to reach USD 2.8tn by the end of 2020 in a baseline scenario. This, however, is not due to a lower asset growth within the region but the significant depreciation of the region's main currencies in relation to the US dollar (we express all our estimates in USD and use exchange rates as of the end of each year). Indeed, AuM within the region has experienced a double-digit growth rate of approximately 14% from 2007 to 2018. While significant depreciation in the region's main currencies relative to the USD may suggest that the industry is in stagnation, the assumption of a constant exchange rate since the time of our initial estimates would have seen total assets at approximately USD 3.9tn as of the end of 2019. Given the low exchange rates, we expect the region's assets to rise to between USD 4.0tn and USD 4.5tn by 2025. However, AuM is likely to be significantly higher than our estimates should the exchange rates appreciate from what is observed in 2014.

## Exhibit 2: Global AuM by region (2015-2020e)




Source: PwC AWM Market Research Centre, Refinitiv

* Estimates are based on our base-case scenario

Asia-Pacific | Europe | Latin America | Middle East and Africa | North America

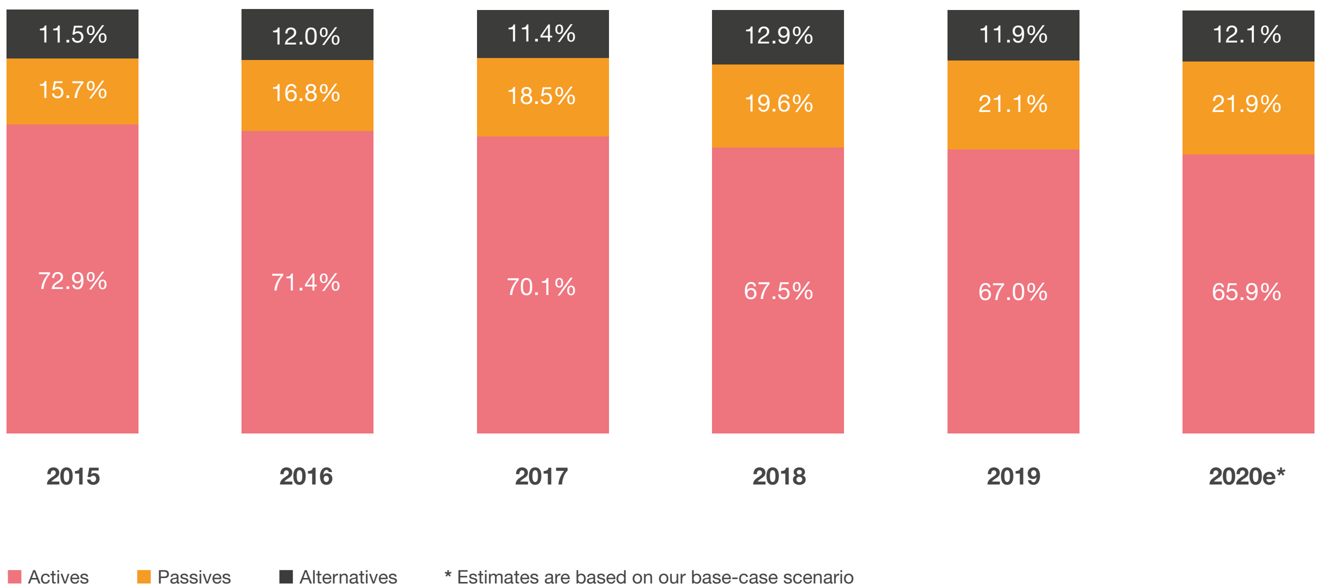
# Past: From ‘a new world’ to a ‘new normal’: what has changed? Predictions vs Reality

## Outcomes matter

We projected that increasing investor interest in passive and alternative strategies would see these investments constitute 35% of total industry assets by 2020.

Our projections have materialised. As of the end of 2019, assets in alternatives had risen by a CAGR of 10.1% to USD 13.2tn from 2015, and passives had grown by a CAGR of 17.4% to USD 23.4tn; together making up 33% of total industry assets (cf. Exhibit 3). Just as predicted, the proliferation of alternatives was significantly bolstered by the low interest environment and surging institutional demand for alpha. However, 2019 saw a fall in asset share for alternatives due to a major increase in traditional AuM. That being said, moving forward, we believe this share will increase notably, at the cost of traditional active management in particular.

### Exhibit 3: Percentage allocation of actives, passives, and alternatives

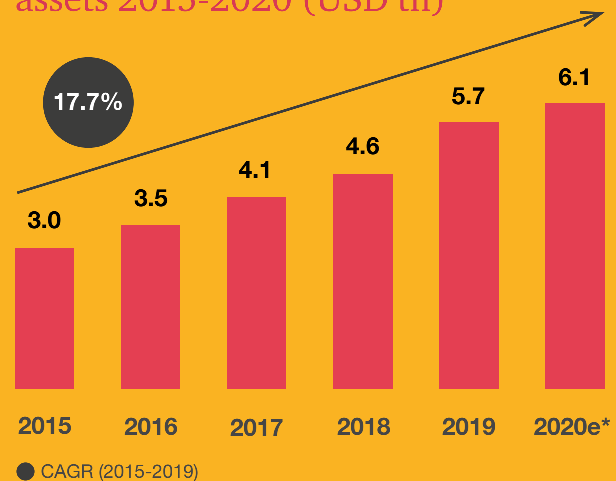



* Estimates are based on our base-case scenario

Source: PwC AWM Research Centre, Lipper, ICI, Preqin

The growth of passives, which have seen a consistent increase in global asset share, has been largely bolstered by the recent proliferation of exchange traded funds (ETFs). Global ETF assets have undergone truly formidable growth in recent years, skyrocketing at a 17.7% CAGR from 2015 to reach USD 5.7 tn by the end of 2019; surging by 22.4% from 2018 to 2019 alone (cf. Exhibit 4). This growth is primarily due to the pickup of ETFs within the retail segment and the accelerated allocation to ETFs among institutional investors; who are attracted by the low fees and broader market exposure. The rise of smart beta has also led to a further surge in ETF assets.

### Exhibit 4: Evolution of global ETF assets 2015-2020 (USD tn)




Source: PwC Market Research Centre analysis based on Refinitiv and Morningstar

* Estimates are based on our base-case scenario

# Past: From ‘a new world’ to a ‘new normal’: what has changed? Predictions vs Reality

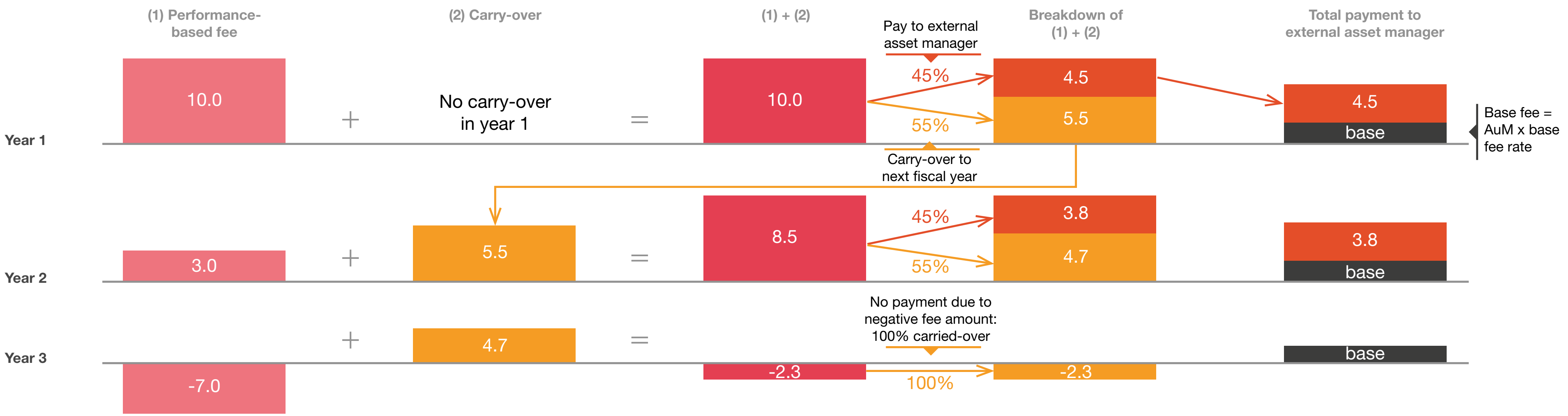
## Buyers’ market (fee models are transformed)

We predicted that the combination of rising regulatory pressure, the rise of passives and investor scrutiny would cause fee levels and models to be challenged.

In recent years we have seen mounting regulatory pressure - which started with the Retail Distribution Review (RDR) in the UK - leading to heightened scrutiny of retrocessions. Since then, most global asset management centres have implemented regulations which either prohibit retrocessions in case of independent advice or force managers to transparently disclose their fees in their reporting to regulators and investors. Further moves by certain regulators, such as in the UK, are pushing asset managers to clearly demonstrate the “value for money” that they provide their investors. Moreover, in February 2020, the European Securities and Markets Authority (ESMA) announced that it would not intervene in EU member states requiring managers to cap the fees charged in UCITS funds.

This pressure comes not only from regulators, however. We have recently seen rising scrutiny among institutional investors on managers demanding high fees where they have not provided alpha. Large investors such as the Global Pension Investors Fund (GPIF) have introduced new fee models in order to motivate asset managers into following suit (cf. exhibit 5). In response, we have seen managers revamping their fee structures; cutting fees or embracing new innovative fee models in order to increase the attractiveness of their products to investors. We have seen major asset managers such as Fidelity and Allianz introducing new fee models for some of their active funds, with a low baseline fee and a performance fee.

## Exhibit 5: GPIF’s carryover mechanism




Source: PwC AWM Market Research Centre, GPIF (GPIF’s New Performance-Based Fee Structure, 2018)

# Past: From ‘a new world’ to a ‘new normal’: what has changed? Predictions vs Reality

## Technology: do or die

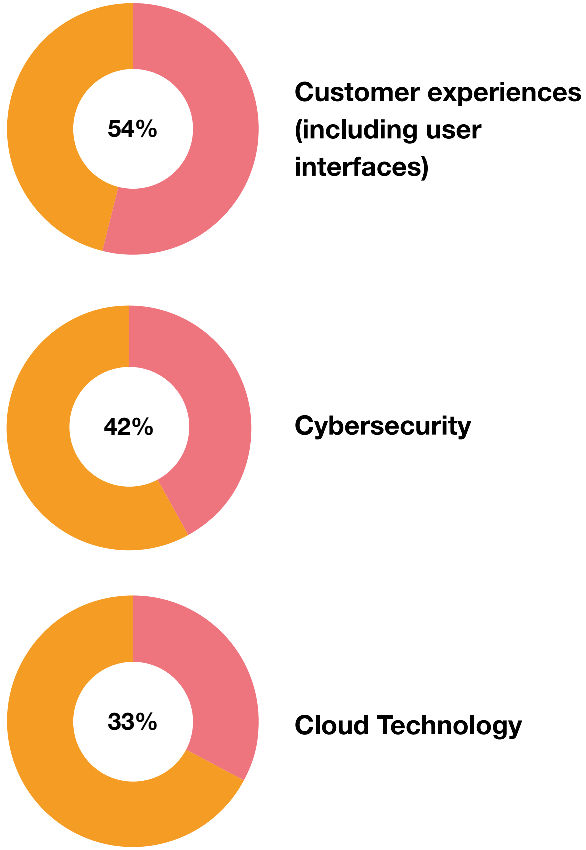
We predicted that, by 2020, technology would become mission critical to driving customer engagement, gathering and synthesising data, operational efficiency, and regulatory and tax reporting. As a result, cyber risk would become one of the key risks for the industry, ranking alongside operational, market and performance risk.

As predicted, technology has evolved to become one of the key focus areas of the asset management industry, with leading industry participants attributing unprecedented attention to the importance of digitalisation and the opportunities that it presents. The disruption of technology within the industry is seemingly at an all-time high, from tech companies integrating AM functions into service offerings at cheaper costs to the proliferation of self-managed portfolios via apps such as Revolut and Robinhood. As a result, leading managers in 2020 are embracing digitalisation in order to thrive in the face of rising competition and disruption – and the increasingly digital world we find ourselves in as a result. The importance of smart technologies is not solely limited to their disruptive nature, however. The AWM industry is widely cognisant of its potential to vitally restructure their operations from the top down: from optimising distribution functions and data management to enhancing regulatory reporting. In PwC’s 2019 AWM CEO survey, 90% of respondents either agreed or strongly agreed that AI would significantly change their businesses by 2024. In response to this, we are seeing leading managers significantly accelerate their uptake of digital technologies and embedding them across their organisations, from the front to the back office.

The opportunities not only extend to streamlining operations, but also enhancing client engagement and widening reach. In fact, the 2020 PwC CEO Survey showed that customer experience tops asset and wealth management CEOs’ list of investment priorities, and technology is critical in meeting these expectations (cf. Exhibit 6).

## Exhibit 6: Digital technologies rank as AWMs primary priorities for the coming year

Which of the following opportunities in the financial services industry will you be prioritising and/or investing in over the next 12 months?




Note: Multiple answers possible
Source: PwC CEO Survey

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## Distribution is redrawn

AWM 2020 predicted that, by 2020, four distinct regional fund distribution blocks (North Asia, South Asia, Latin America and Europe) would have formed, marking a move towards overcoming the fragmented nature of the regional fund industry and allowing for products to be sold pan-regionally. Achieving this would likely bolster the asset management capabilities and financial stability of certain domiciles, in turn leading to lower fees, improved client servicing and greater product innovation as the competitive landscape develops. We expected that, as these blocks formed and strengthened, they would develop regulatory and trade linkages with each other, transforming the way that asset managers viewed distribution channels.

While we have seen this materialise to a certain extent, the development of passporting and inter-regional distribution blocks has been slower than expected. Perhaps this is unsurprising given the geopolitical trade tensions that have emerged since the publication of ‘A Brave New World’ in 2014. The Asia region’s Fund Passports (AFRP) marks the most significant passporting initiative to come to fruition. Officially launched in February 2019, this multi-lateral trade agreement facilitates cross-border fund distribution with limited regulatory hurdles. As of yet, Australia, Japan, New Zealand, Korea and Thailand are the sole signatories.

Although there have been considerable efforts on developing other regional hubs, particularly in Asia and Latin America, few advances have been made due to various regulatory roadblocks. The implementation process of such passporting agreements remains riddled with huge costs associated with understanding and facilitating market operations in each country as well as complying with regulatory requirements. While we do believe that these efforts will progress in the future, development will likely be slow - given the varied interests of each of the countries and regions and the lack of an economic or political union comparable to the EU. Further, the decline of globalisation amid rising nationalism and inter-regional disputes could further complicate regional distribution.

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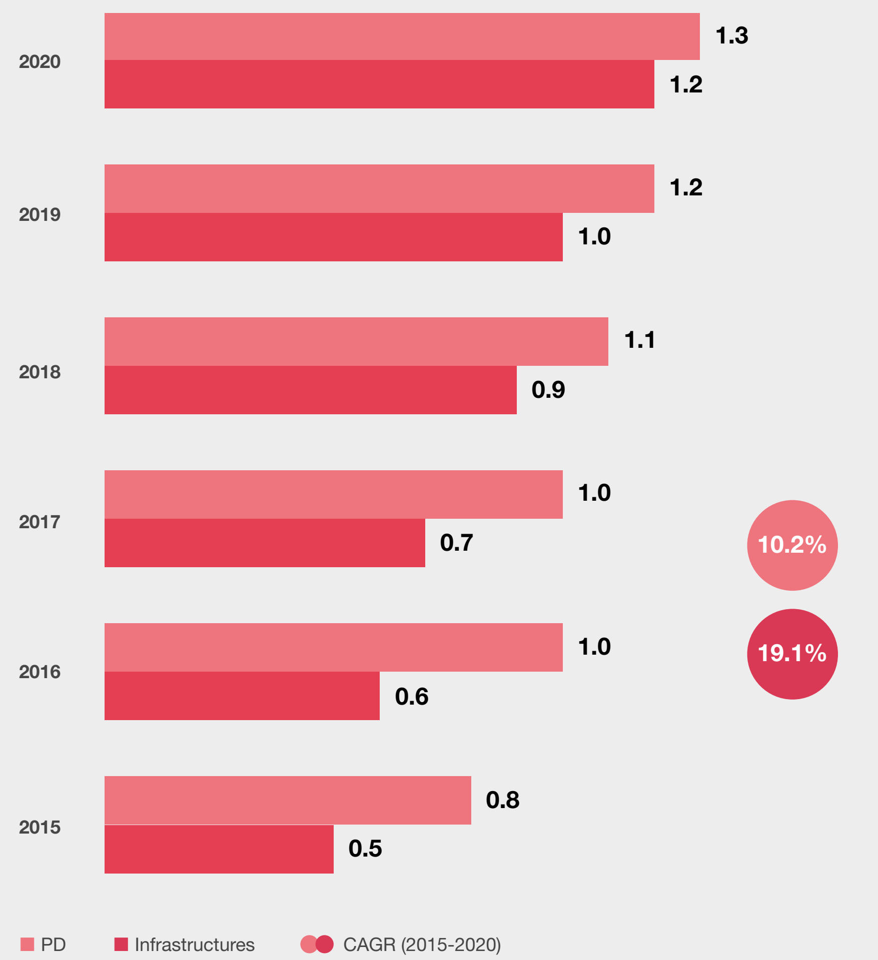
## Funding the future

Going into 2020, AWMs were expected to partially fill the lending gap stemming from banks cutting their financing to the real economy as a result of rising regulatory limitations imposed following the global financial crisis (GFC). This was particularly pronounced in terms of small and medium enterprise (SME) financing and infrastructure projects. We also expected the AWM industry to increase its footprint in providing solutions for retirement.

As expected, infrastructure and private debt (PD) assets have undergone a formidable growth since the release of 'A Brave New World' in 2014, growing at a respective 18.9% and 10.7% CAGR from 2015 to 2019 (cf. Exhibit 7); with infrastructure assets doubling in that period. We have seen an increasing number of managers seeking new opportunities in private debt and infrastructure. This growth is pushed by both supply and demand-side factors. On the demand side, a further decrease in lending from banks amid increased regulation widened the financing gap that private debt and infrastructure fund managers have stepped in to fill. On the supply side, investors are increasingly prioritising yield, diversification, and downside protection from market volatility. Private debt and infrastructure funds tick all these boxes. Moreover, the performance of the infrastructure asset class is another key factor in its significant increase. While certain infrastructure assets have been materially impacted by the pandemic, such as airports, the long-term outlook for the asset class remains positive in the current low-yield environment.

Exhibit 7: Global Infrastructure and PD assets (USD tn)




Source: PwC AWM Market Research Centre

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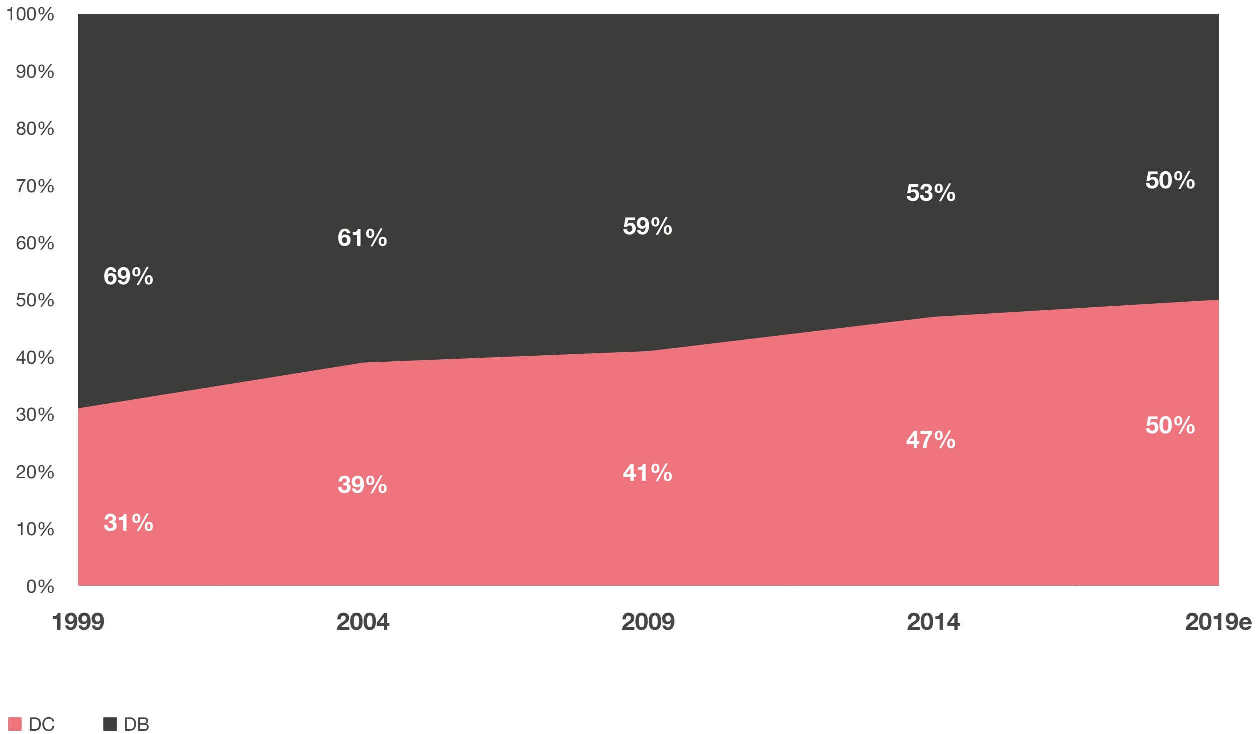
We have also observed a strong and sustained growth within global retirement in recent years, increasing at a 9-year CAGR of 5.7% to reach an estimated USD 46tn in 2019. During this period, global defined contribution (DC) plan asset growth outpaced that of defined benefit (DB) plans, as the responsibility of retirement provision is shifted from governments to individuals and corporates (cf. Exhibit 8).

## Exhibit 8: Evolution of global DB/DC asset share over time




Source: Thinking Ahead Institute

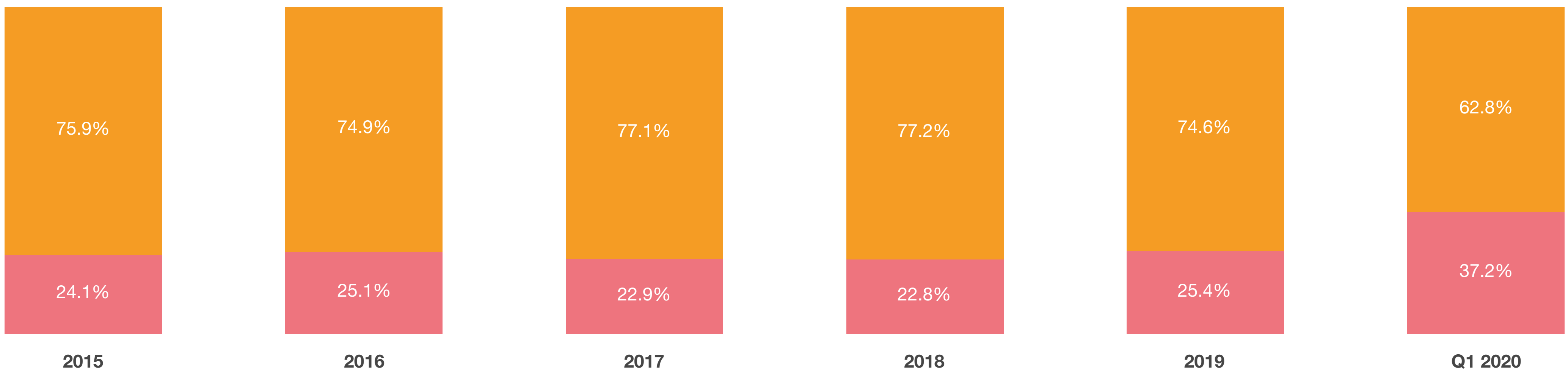
# Past: From ‘a new world’ to a ‘new normal’: what has changed? Predictions vs Reality

## A New breed of global asset managers

“AWM 2020” predicted that 2020 would see the emergence of a new breed of mega-managers with footprints in both developed and emerging markets. We expected that these managers would have highly streamlined platforms, targeted solutions for customers and stronger and more trusted brands. These managers will not only emerge from the traditional fund complexes, but from among the ranks of large alternative firms, too.

Our predictions have partially materialised. We have seen the large industry players holding an even higher concentration of assets (cf. Exhibit 9)– particularly those providing low cost products, strong brand recognition, and digitally enhanced services leading the pack. We have also seen the development of some mega-alternative asset managers who now rank among the top 100 global managers. However, we have not seen an emergence of new mega players within the traditional or alternative asset management industry, with only the major incumbent managers undergoing a notable increase in scale. Moreover, market consolidation has not occurred at the rate which we had initially predicted, due to relatively healthy margins.

## Exhibit 9: Asset concentration within top 10 AWMs (%)




Top 10 AWMs Rest of AWMs

Source: PwC AWM Market Research Centre, IPE

# Present: 2020 and the COVID-19 impact

## Global capital markets absorbed the COVID-19 impact in Q1 2020, posting a record-breaking recovery in Q2

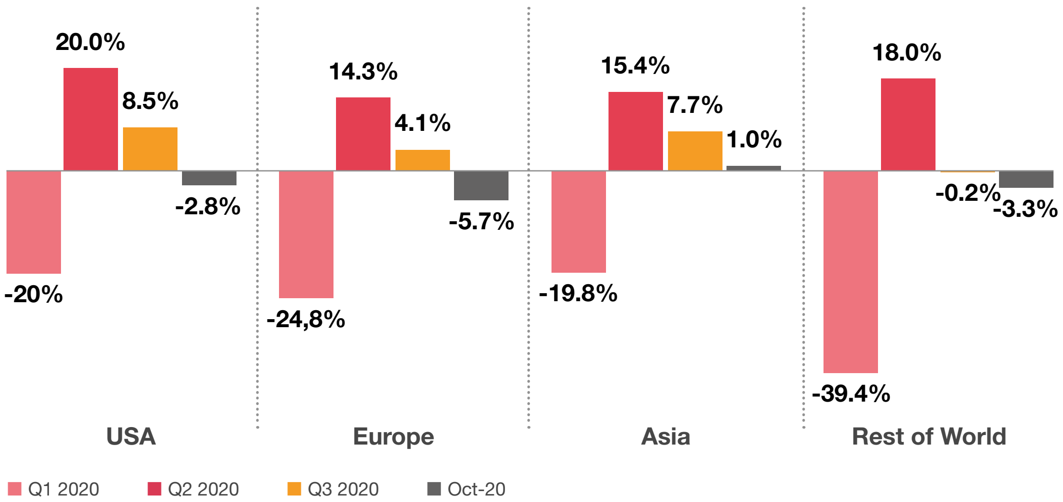
Since the release of 'A Brave New World' in 2014, the world has undergone a number of changes that have each had peculiar impacts on the world: We have experienced a raging bull market, the rise of populism, and a global pandemic. The latter has had more far-reaching implications across all markets and sectors of the global economy at a speed and on a scale never before seen hitherto. As of Q2 2020, the US GDP had contracted by 32.90%, while GDP of the UK and Germany both fell by 20.40% and 10.10% respectively. The CBOE Volatility index also hit a record high of 82.7, the highest it had reached since 2008. In October 2020, the IMF reset the global GDP growth rate for 2020 to -4.4%; a 7.7% downward revision from their 3.4% estimate as at January 2020, reflecting sentiments that the economic impact of the COVID-19 pandemic has been larger in scope than anticipated relative to the Global Financial Crisis(GFC) of 2008 and that the path to recovery remains uncertain.

The COVID-19 pandemic has led to extreme market volatility and high investor uncertainty. Initially, rapidly changing market reactions prompted a widespread market sell-off; plunging global markets into bear market territory. Major indices experienced drops at paces never seen in previous recessions; with the FTSE and S&P 500 both falling by 34% within 24 trading days of their previous peak.

As the search for a vaccine continues, sovereign institutions around the world have implemented unprecedented fiscal measures which have succeeded in softening market impact and stimulating local economies. These measures have succeeded in calming investor sentiment, having a tangible effect on global markets. The renewed level of market activity saw all major indices experience record-breaking recovery rates as a result, both in terms of speed and scale (cf. Exhibit 10). In the U.S, equity markets saw an impressive rebound in Q2 and Q3 2020, outperforming other major markets to report the best quarterly results in 20 years.

In Europe, the easing of lockdown measures and the prospects of a EUR 750bn post COVID-19 recovery fund sparked positive market sentiments. Asian markets also saw growth on the back of improvement in tech stocks and a return to normalcy after extended lockdown periods.

### Exhibit 10: Global equity markets show a strong recovery in Q2 & Q3 2020




Source: PwC AWM Market Research Centre

| Index | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Oct-20 |
|---|---|---|---|---|---|
| S&P 500 | 3,230.8 | 2,584.6 | 3,100.3 | 3,363.0 | 3,270.0 |
| % Change | | -20.0% | 20.0% | 8.5% | -2.8% |
| DJIA | 28,538.4 | 21,917.2 | 25,595.8 | 27,781.7 | 26,501.6 |
| % Change | | -23.2% | 16.8% | 8.5% | -4.6% |
| NASDAQ | 8,972.6 | 7,700.1 | 10,058.8 | 11,167.5 | 10,911.6 |
| % Change | | -14.2% | 30.6% | 11.0% | -2.3% |
| EUROSTOXX | 3,745.2 | 2,786.9 | 3,234.1 | 3,193.6 | 2,958.21 |
| % Change | | -25.6% | 16.0% | -1.3% | -7.4% |
| SSE | 3,050.1 | 2,750.3 | 2,984.7 | 3,218.1 | 3,224.5 |
| % Change | | -9.8% | 8.5% | 7.8% | 0.2% |
| MSCI World | 2,358.5 | 1,852.7 | 2,201.8 | 2,367.3 | 2,292.9 |
| % Change | | -21.4% | 18.8% | 7.5% | -3.1% |

## Conclusion

The majority of the projections and expectations that we formulated in previous editions of 'AWM Revolution' have materialised. It appears that all the trends which have historically driven change in the industry for years have persisted at the predicted rate and scale. Interestingly, the COVID-19 pandemic has not reversed any industry trends. In fact, it appears that the emergence of the COVID-19 pandemic has not altered the course of the Asset and Wealth Management industry, but rather accelerated whatever trajectory it was on before. COVID-19 has magnified certain pre-existing trends namely digitalisation, the shift to alternatives and sustainable investments, the popularity of passives and increasing asset concentration; bringing them atop of mind for all stakeholders within the industry.

Although the world is emerging from lockdown and global economies have posted remarkable recoveries, the full extent of the impact of the pandemic on the industry remains to be seen; with a probability of second and third order effects materialising in the coming years. That being said, it is our view that the crisis has forced the industry to undergo a strategic and operational rethink of its shortcomings and, in doing so, it has developed the resilience that will enable it to brave the uncertain future.

In a separate report, "The Power To Shape The Future", we will be sharing our predictions up to 2025 by asset class and by region in the context of COVID-19. We will be looking at ways in which this uncertain future might unfold and how industry players can leverage these insights and newfound confidence to optimise whatever opportunities there may be as well as manage the risks that lie ahead. We end the second report with a framework by which we believe AWMs can take their internal challenges head on while playing a broader and more impactful role in society.

# Contacts

**If you would like to discuss any of the issues raised in this Report in more detail, please speak with your usual PwC contacts or anyone listed below.**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