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Asset management

Current market
Upward, significant

We are seeing

- Movement away from traditional fund management models
- Increased regulatory burden
- Technological developments
- Lower margins (costs and competition from passive strategies)
- Disruptive behaviour/new entrants
- FCA review of fund management industry

Key drivers

- Increased use of passive investment strategies
- Asset managers are responding to increased competition from 'alternative' service providers
- Established banks seeking to shore up balance sheets through non-core disposals
- Consolidation driven by economies of scale and synergies
- Global players focusing on key growth markets
- Growing international, private equity and 'non-traditional' buyer interest in asset and management businesses
- New technology and emergence of disruptive new entrants
- Market disruption from regulatory change:
  - MiFID II, which is expected to lead to higher overhead costs due to restrictions on commission-based arrangements with brokers and more stringent fee transparency requirements
  - EU GDPR, which will necessitate significant upfront investment and lead to higher ongoing compliance costs due to direct compliance obligations on both controllers and processors of customer data as well as elevated reporting standards

Challenges

- Local regulatory intervention (e.g., UK Financial Conduct Authority's (FCA)) lashing out at the charging of 'dealing commissions' for research and French Autorité des marchés financiers' consultation into conditions for implementing redemption gates on open-ended funds)
- Brexit

Trends to watch

- Market consolidation, as asset managers seek to build scale in response to shrinking profit margins and rising regulatory costs, across all market participants
- Increasing customer expectations. UK fund managers are expanding into international markets to meet growing customer demand for global products
- Competing with international fund managers in European markets
- Jostling for preeminent service provider status amidst ongoing market structure changes, for example, becoming the 'go to' provider of high-margin products/services
- Reaction to disruption from fintech innovation
- China and US inbound investment into Europe (weaker £/€ means cheaper for US/China buyers)
- Some banks stepping back from asset management while others stepping up

> **"Increasing competition, pressure on costs and changes in investor behaviour have already led to some consolidation in the industry. Much more is on the horizon**

Our M&A forecast

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Significant uptick in consolidation activity at all levels of the market and growing international buyer interest. A number of notable market players have already announced consolidation plans.

Publicly reported examples

Increased use of passive investment strategies	□ Global exchange-traded fund industry exceeded US$4 trillion in assets in April 2017 (May 2017) □ BlackRock and Vanguard control 55 per cent of the global ETF market (January 2017)
Responding to increased competition from fintechs	□ BinckBank's acquisition of Pritle (March 2017) □ Royal Bank of Scotland's replacement of 220 investment advisers with robo-advisers (March 2017) □ UBS's launch of its UK robo-adviser (October 2016)
Non-core disposals and focus on core markets	□ UBS's disposal of wealth management business in the Netherlands (June 2017) □ UniCredit's disposal of Pioneer Asset Management (December 2016) □ Barclays' disposal of Singapore/Hong Kong wealth management businesses (November 2016)
Growing buyer appetite	□ Foreign buyers: – HNA's acquisition of a strategic stake in Old Mutual's US asset management unit (March 2017) □ Financial sponsors: – Bridgepoint's potential acquisition of 50 per cent of Primonial (November 2016) – KKR's potential acquisition of Jupiter Fund Management (December 2016) □ 'Non-traditional' investors: – Saudi's Public Investment Fund announced plans to invest US$65 billion with foreign asset managers (May 2017)
Banks searching for stable returns	□ Credit Suisse Group announced plans to expand its onshore wealth management business (January 2017) □ Mediobanca announced a €1 billion war chest for 2017-2020 wealth management acquisitions (November 2016)
Market consolidation, at all levels	□ Larger: – Standard Life-Aberdeen Asset Management merger (March 2017) – Amundi's acquisition of Pioneer (March 2017) – HSBC's announcement plans for acquisitions of asset management portfolios (February 2017) – HSBC Deutschland's proposed expansion in Germany (January 2017) □ Mid-sized: – Bank Pekao's acquisition of a 51 per cent stake in Pioneer Pekao Investment Management (June 2017) – Groupe Crystal's acquisition of Expert & Finance (June 2017) – ICU Group's acquisition of UkrSib Capital (June 2017) – Lombard International's joint venture with Akaan (May 2017) – Amaika announced plans to acquire asset managers that are of an equal size or smaller than itself (May 2017) □ Smaller: – Van Lanschot Kempen's acquisition of UBS Group's domestic wealth management activities in the Netherlands (June 2017) – Gresham House's acquisition of Hazel Capital (May 2017)
UK fund managers expanding into foreign markets	□ Schroders' acquisition of Adveq (April 2017) □ M&G's expansion into Nordic markets (August 2016)
Competing with foreign fund managers in European markets	□ Convoy's acquisition of a strategic stake in Nutmeg (November 2016) □ GF Fund Management's expansion into Europe (January 2016)