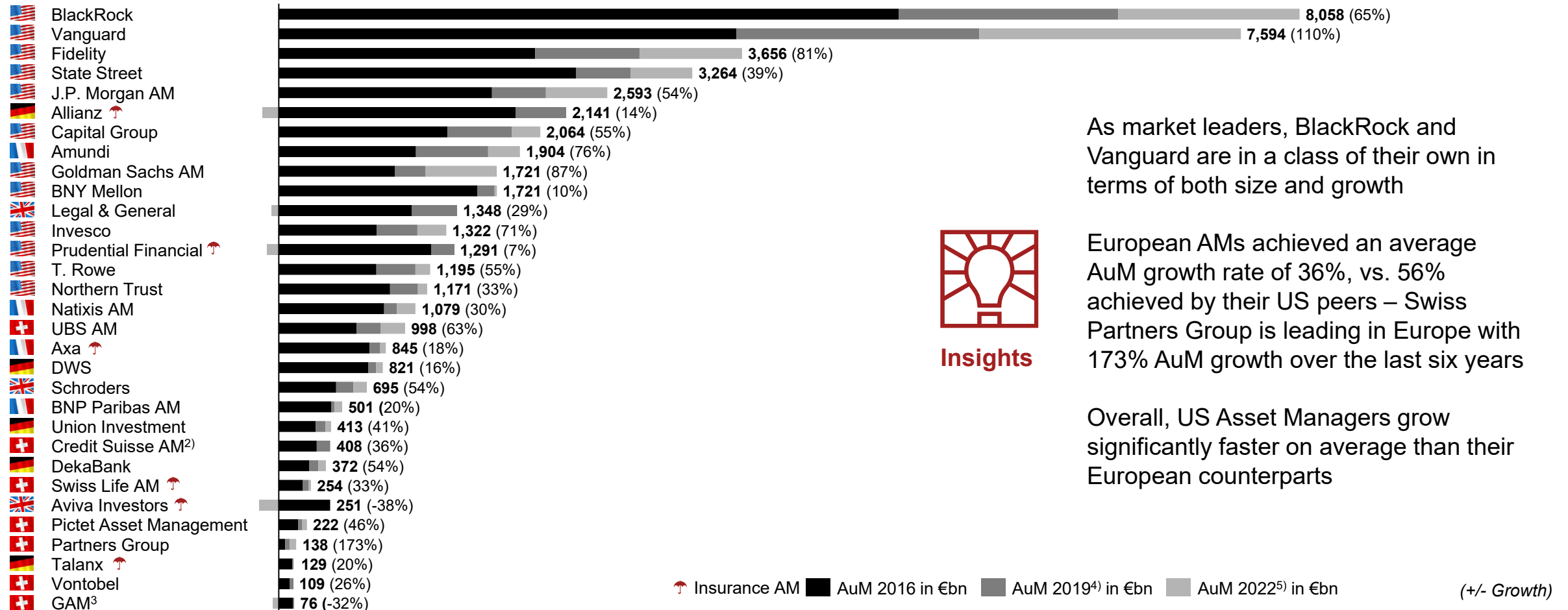

Cost and growth in Asset Management

Benchmarking analysis and implications for
German and Swiss Asset Managers

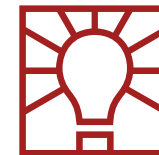
September 2023

US Asset Managers outperform their European peers over the long term – only a few others are able to keep pace

Growth for largest and selected other AMs¹⁾ (2016 to 2019 to 2022 in €bn)



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



Insights

European AMs achieved an average AuM growth rate of 36%, vs. 56% achieved by their US peers – Swiss Partners Group is leading in Europe with 173% AuM growth over the last six years

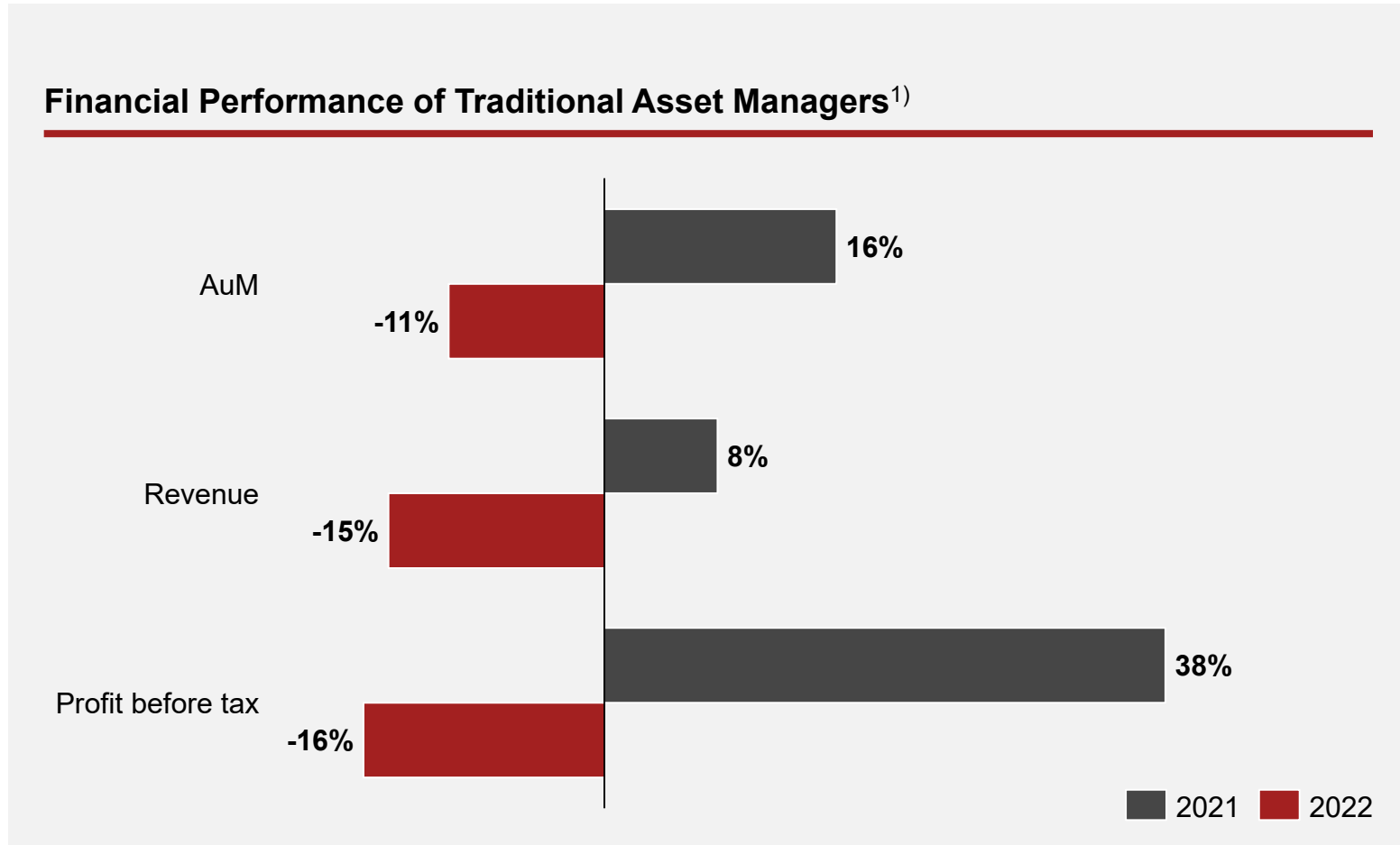
Overall, US Asset Managers grow significantly faster on average than their European counterparts

Insurance AM AuM 2016 in €bn AuM 2019⁴⁾ in €bn AuM 2022⁵⁾ in €bn

(+/- Growth)

The AM industry took a big hit in 2022 – AuM, revenues and profits declined, with alternative AMs bucking the trend

Financial Performance comparison 2021-2022¹⁾

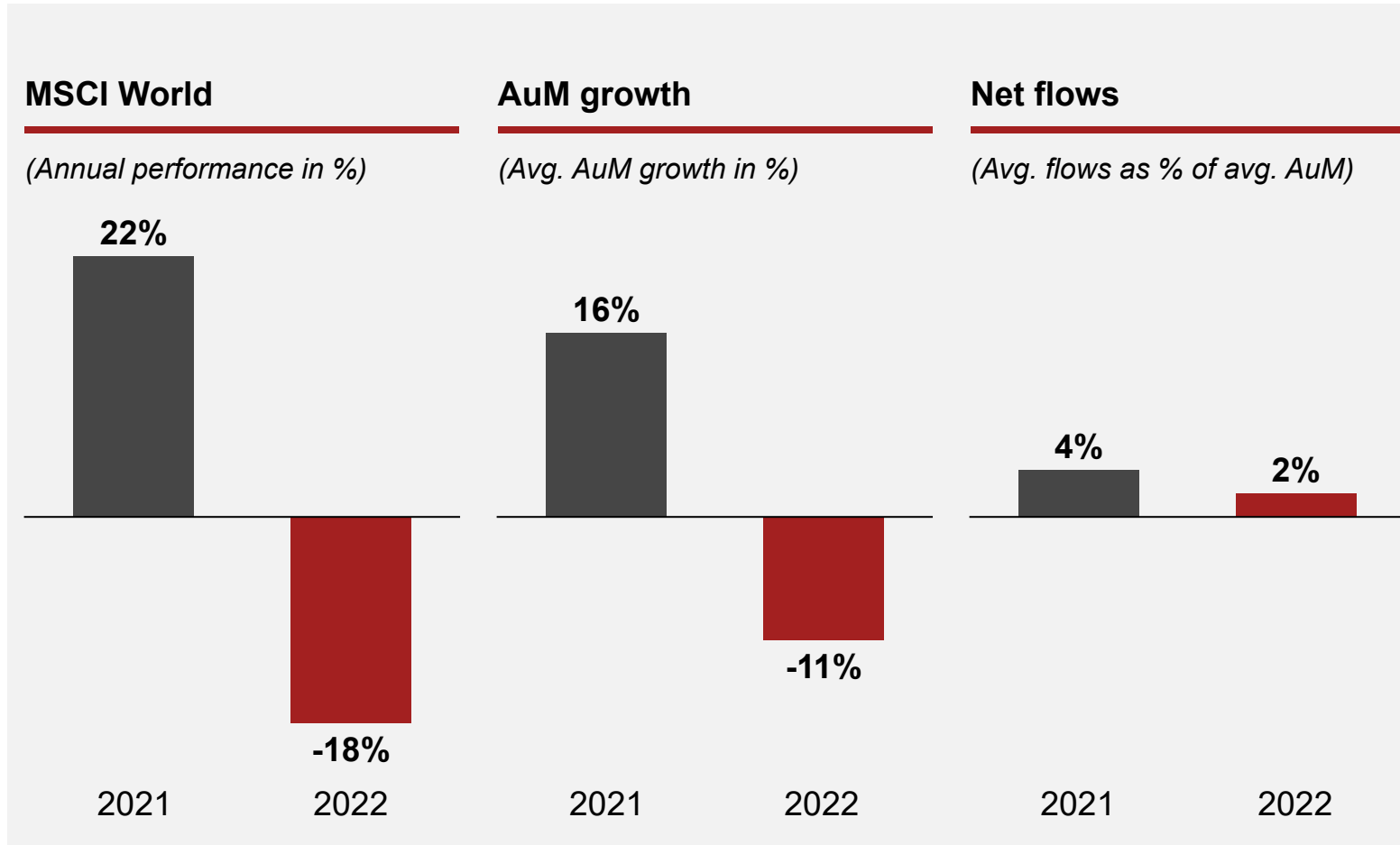


Insights

- In comparison to our 2021 sample study of Asset Managers, AuM are down on average by -10.6% after a strong performance in 2021 (+15.8%)
- Both revenues and pre-tax profits experienced a substantial decline in 2022
- Almost all Asset Managers in our sample had lower AuM compared to 2021, except for alternative Asset Managers
- In a high inflationary environment, alternative Asset Managers have grown their AuM, presenting a sweet spot for the Asset Management industry

The downturn in AuM for Asset Managers in 2022 is in line with declining markets and muted net flows

Financial Performance comparison 2021-2022¹⁾

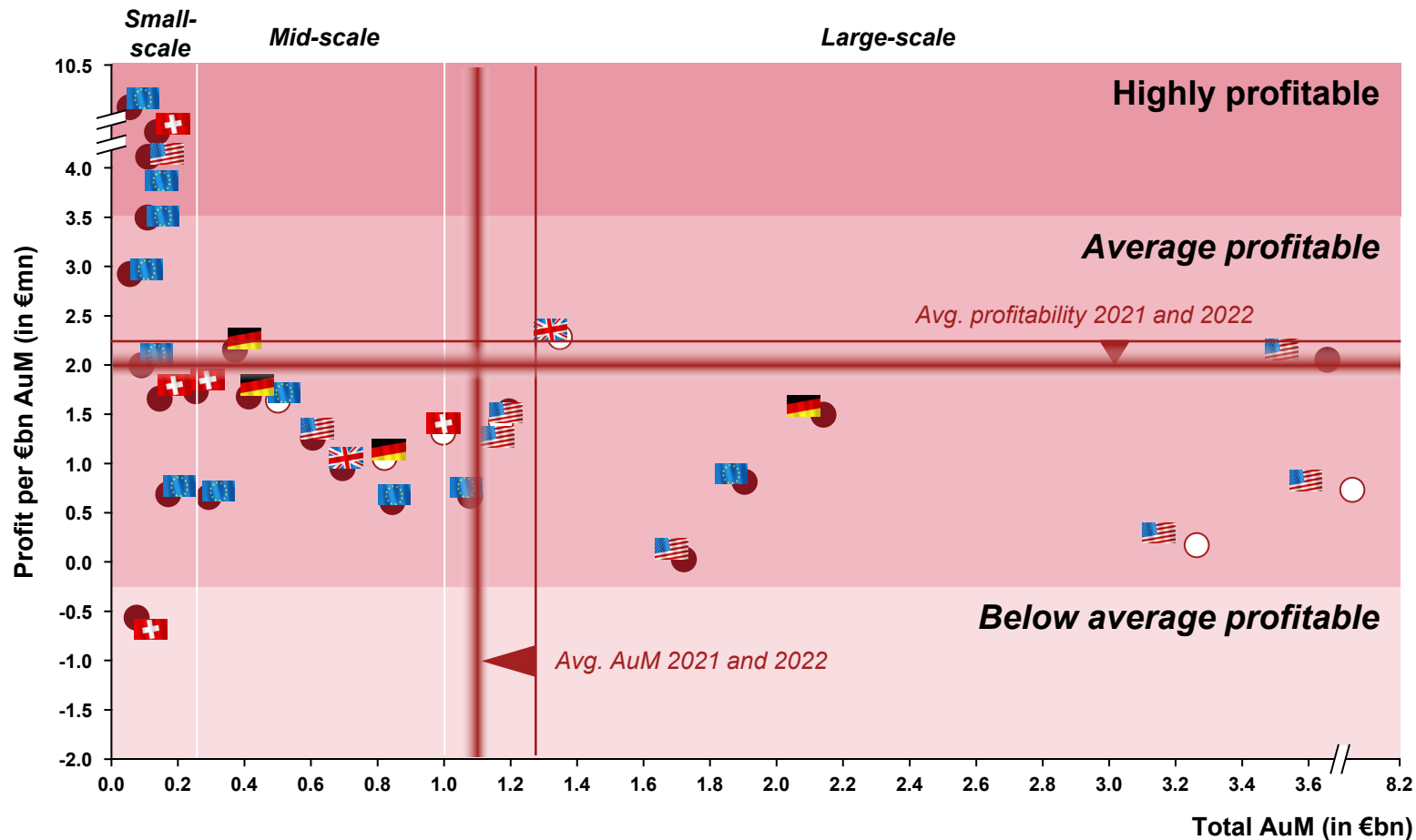


Insights

- Markets experienced the worst year since 2008, with the MSCI World Index down by 18% in 2022 due to a rising level of uncertainty, inflation, fears of recession, and central bank rate hikes
- Asset Managers experienced muted net new money (NNM) flows, with slightly positive inflows but an overall decline from 4% in 2021 to 2% in 2022
- However, positive NNM only compensated in part for negative markets, and in some cases FX effects further impacted AuM negatively

2022 was adverse for AMs, with significant declines in AuM and profits; small-scale AMs were more profitable than peers

Outside-in competitive profit benchmarking¹⁾



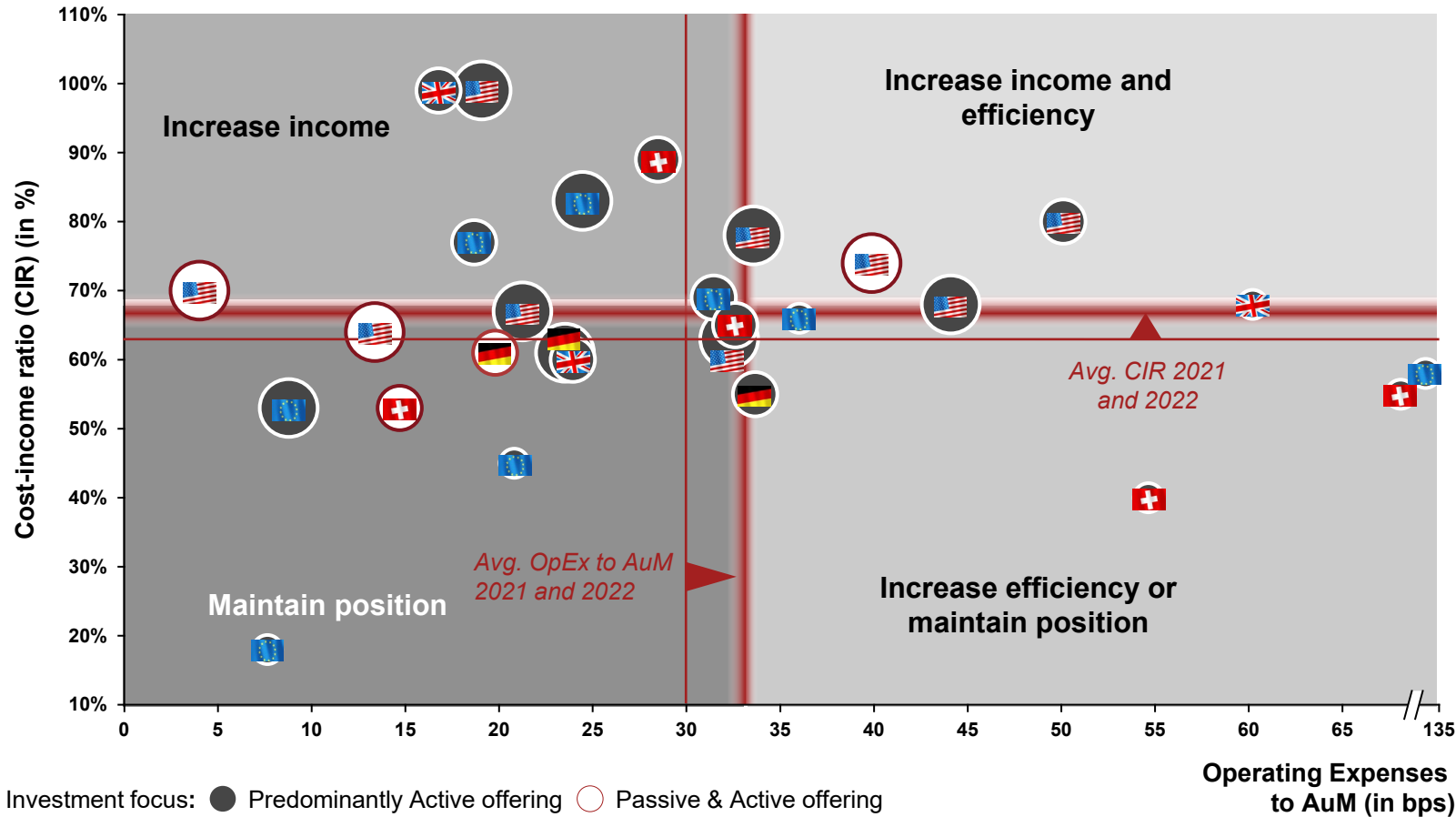
Insights

- Average profit per €bn AuM declined by ~16% between 2021 and 2022
- The majority of AMs in the sample experienced decreasing profits, except for Deka Bank, Swiss Life and UBS
- The most profitable AMs are largely small and active Asset Managers with business models similar to Private Equity firms, along with some selected US pure-play alternative AMs

Investment focus:²⁾ ● Predominantly active offering ○ Passive & Active offering

Declining revenues and rising expenses are putting Asset Managers under pressure

2022 Outside-in competitive cost benchmarking¹⁾

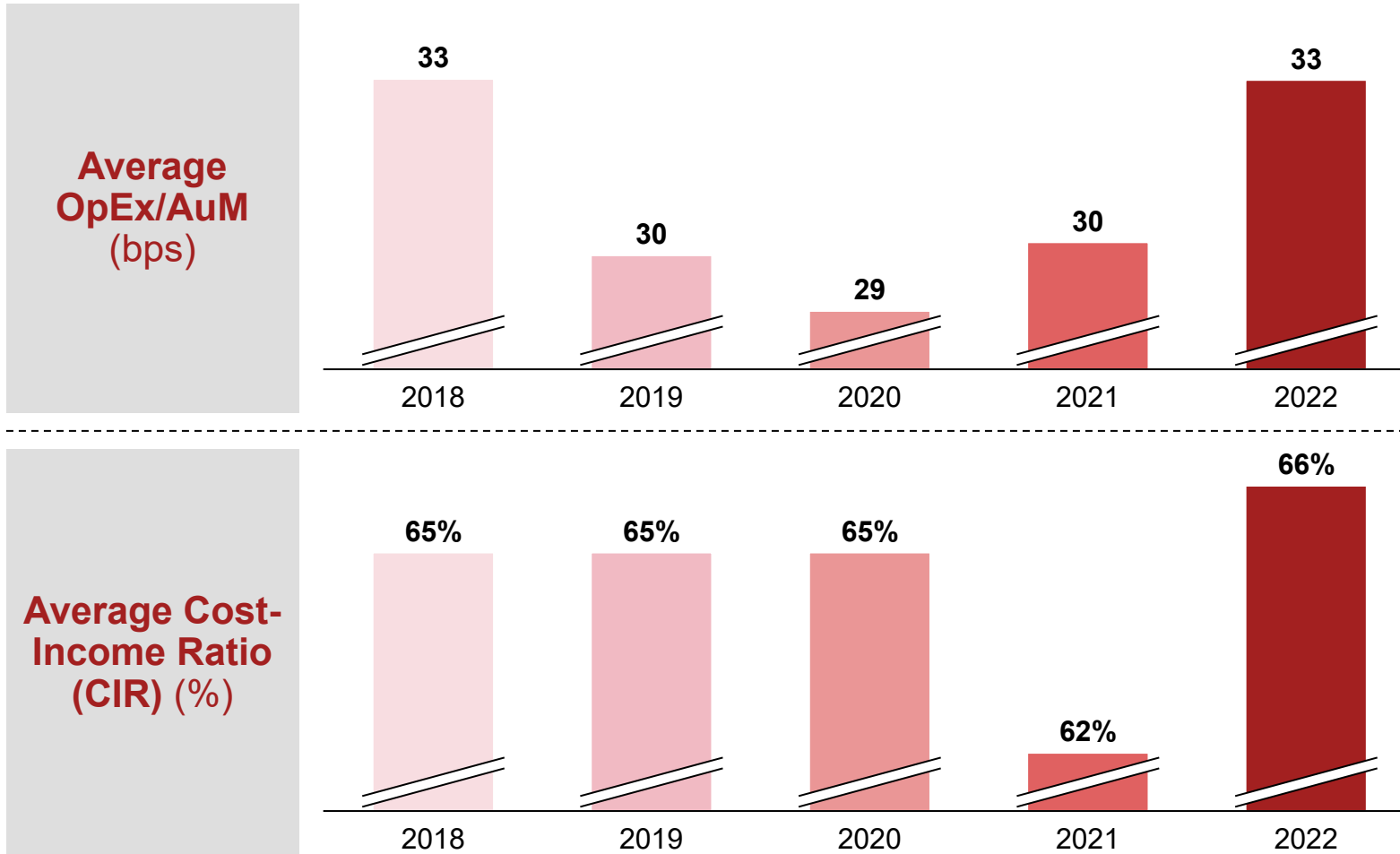


Insights

- Overall, the significant decline in AuM and consequent revenue decreases, together with marginally rising costs, led to increases in CIR and OpEx per AuM
- Almost 80% of selected Asset Managers experienced an increase in CIR
- Successful players with high income and/or efficiency manage a broad asset base i.e., own ETF/index fund product range or focus on alternatives
- Consequently, it will be crucial for Asset Managers to manage costs effectively to tackle cost and profitability pressure

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

Outside-in competitive cost benchmarking¹⁾



Insights

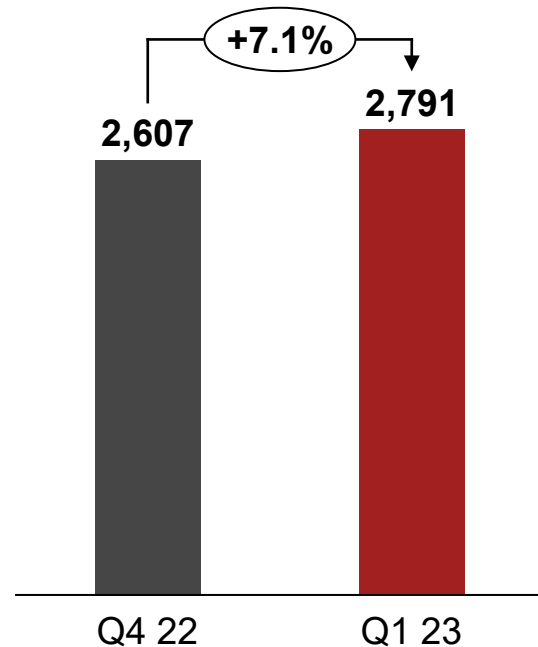
- The Asset Management industry has experienced a notable increase in avg. OpEx/AuM and CIRs
- This is driven by rising cost levels and AuM declines, which in turn has led to decreased revenues
- While the top-line effect will likely normalize with increasing market performance and rebounding AuM, cost 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)

Despite recovery in AuM and revenue growth in 2023, profitability is struggling to keep pace with market recovery

Comparison Q4 2022 and Q1 2023

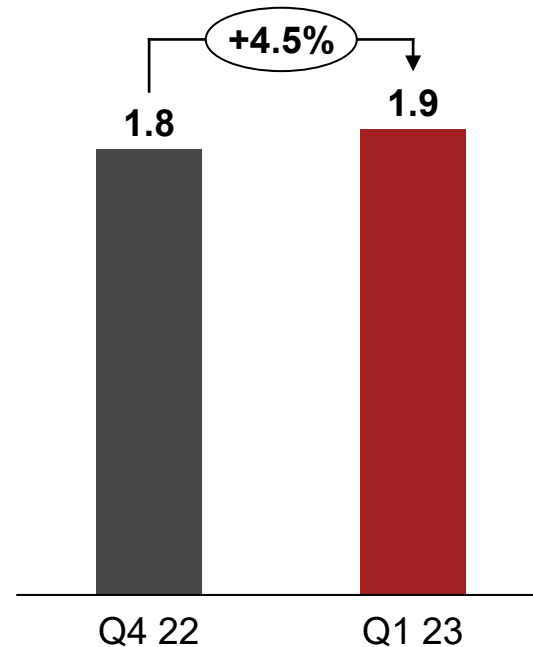
MSCI World

(Index points)



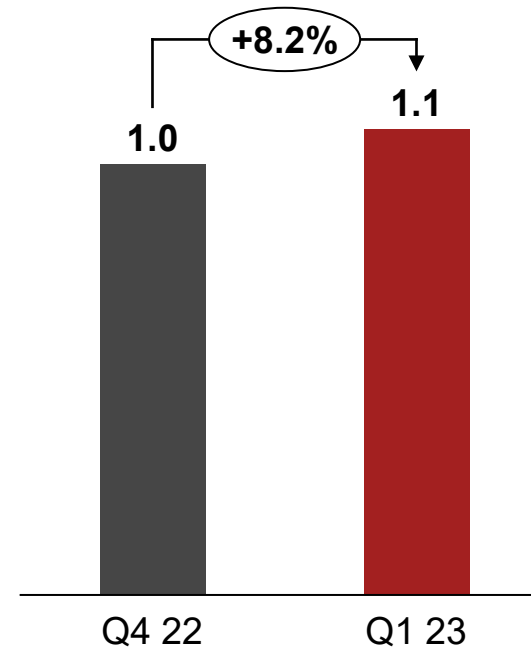
AuM

(Avg. AuM in € tn)



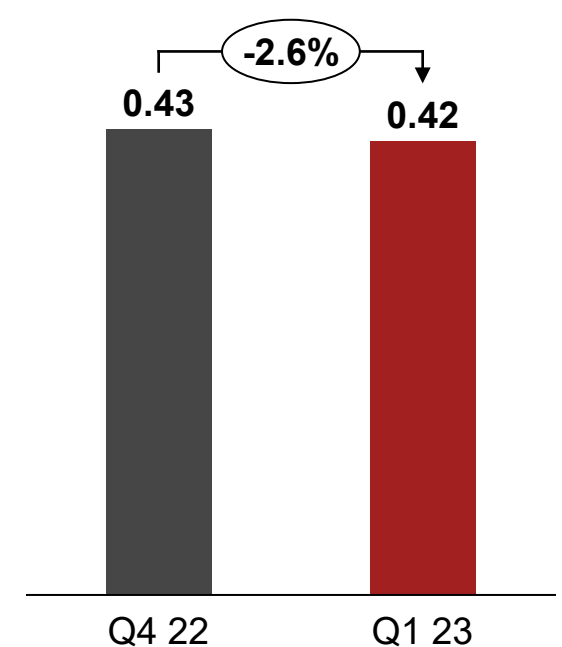
Revenue

(Revenue in € bn)



Profit

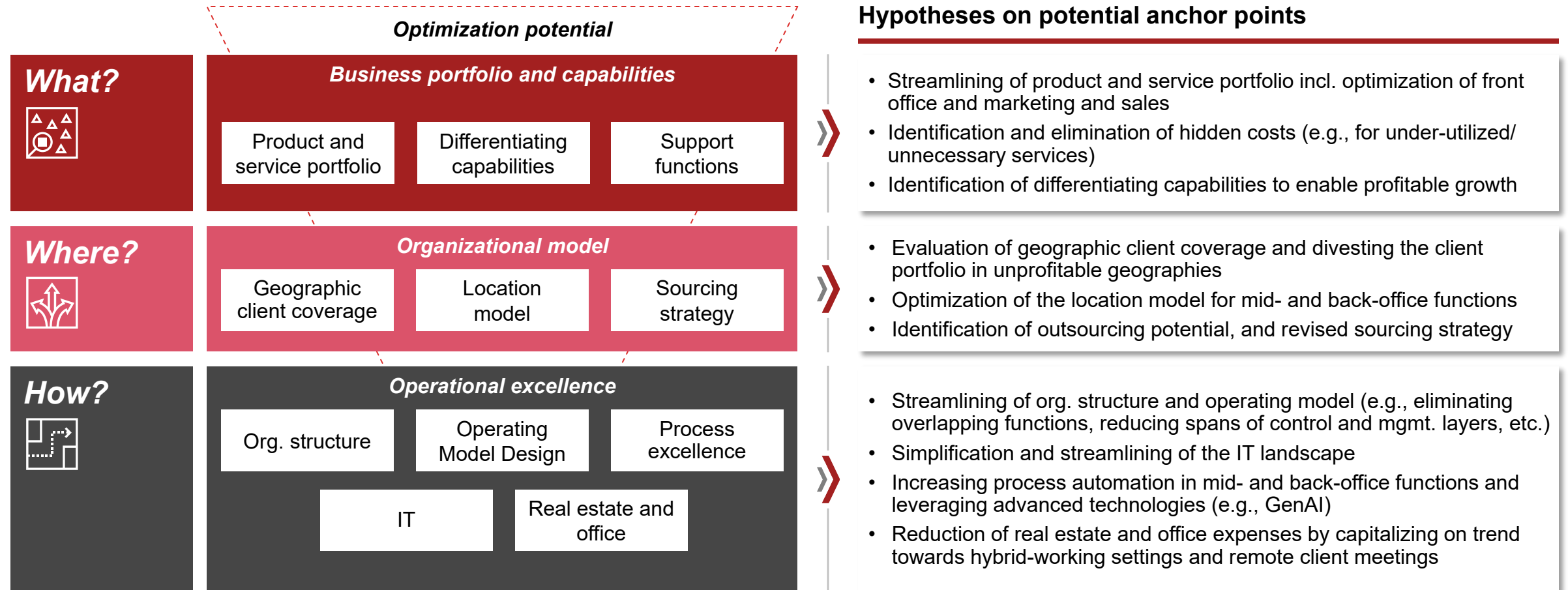
(Avg. profit before tax in € bn)



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, org. model and operations

To counteract the profitability pressure, AMs have different options for optimizing their cost structures

Strategic cost considerations for Asset Managers



In the light of recent pressure on financial performance, some Asset Managers have taken measures to reduce costs

Recent examples of cost measures

January 2023

BlackRock Inc. plans to lay off about 500 employees, or about 2.5% of its global workforce, in an effort to manage expenses

January 2023

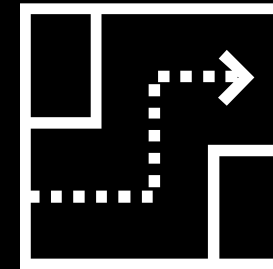
Janus Henderson revamps mgmt. teams seeking to achieve cost savings of \$45m by end of 2023

December 2022

DWS could sell business units in cost-cutting drive and channel savings into growth areas

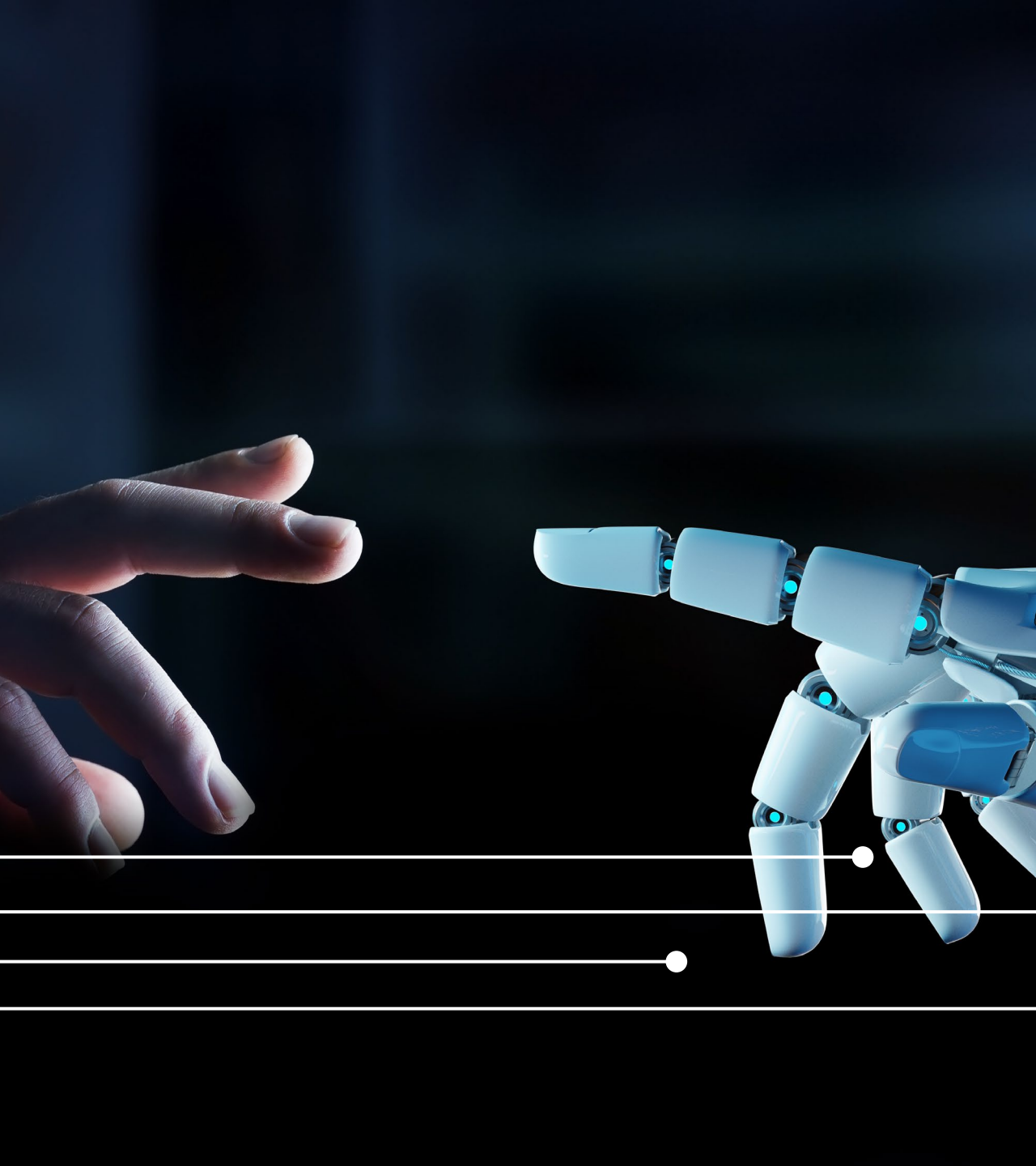
October 2022

Jupiter's new boss axes up to 80 roles and will merge or reposition 30 of its 100 funds in asset management overhaul



What next?

- **Headcount** reductions remain likely at global AMs in the short-term, given it is often the **greatest share of expenditure**
- **Revamping mgmt. boards** is a long-term lever to **reduce costs** and optimize leadership/strategic decision-making
- **Sale of non-core operations** is likely to remain a **quick and efficient approach to reduce expenses** and refocus on/invest in core business units



GenAI in Asset Management

The vast potential of GenAI in Asset Management can be attributed to a small number of well-defined application fields

Overview of GenAI application fields

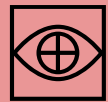
Generative AI



Summarizing and research

Improving and generating written content

Assisting in generating and summarizing coherent and grammatically correct written content such as reports, memos, emails, etc.



Conversations

Understanding human dialogs

Completing tasks such as answering questions, real-time translation and understanding context.



Data protection

Protecting data, using synthetic data

Using automatically-generated synthetic data to anonymize personal data and improve data encryption by training models on encrypted synthetic data.



Data analysis

Analyzing large amounts of data

Processing and visualization of large amounts of data to support decision-making and detect anomalies.



Programming and testing

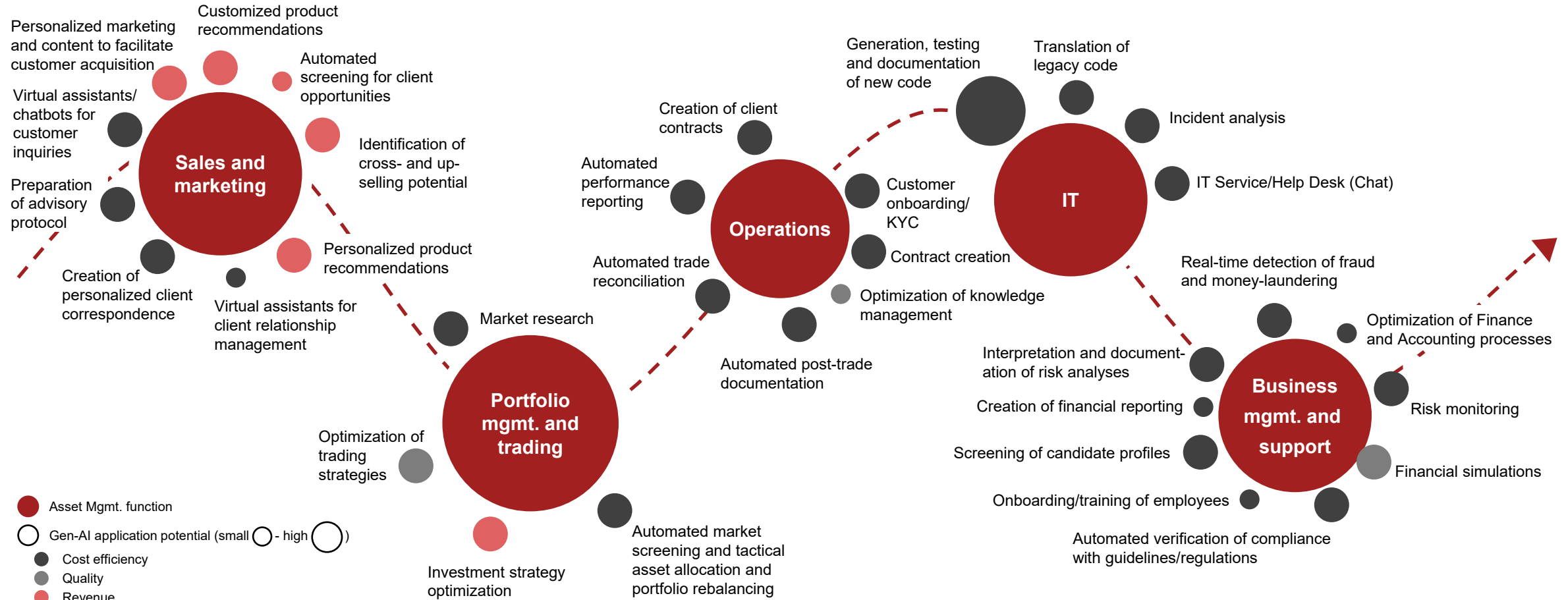
Co-piloting for developers

Automatic completion and generation of codes, together with code optimization, error correction, and testing of codes.

GenAI allows for multiple application fields in AM with the potential to increase efficiency, quality and revenue

GenAI use cases in Asset Management

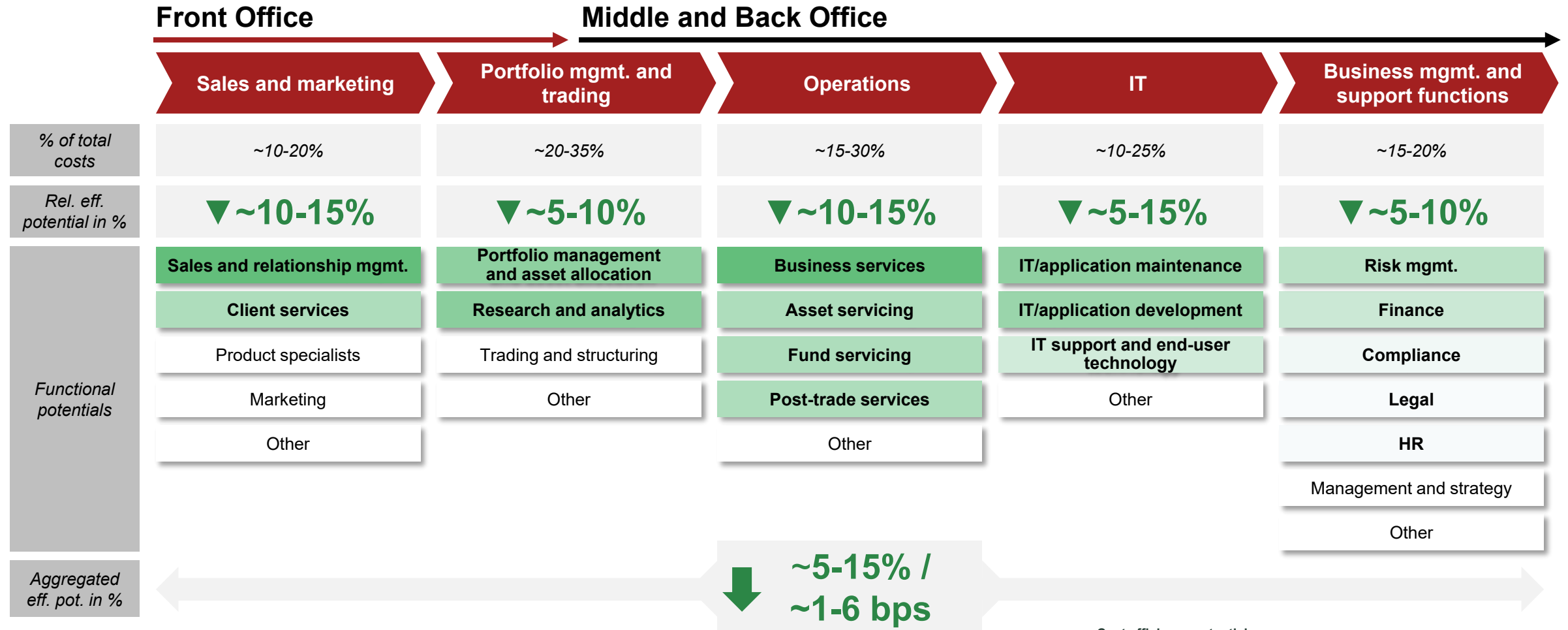
Indicative – non-exhaustive



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



Some initial applications of GenAI can already be observed in the market

Selected examples of GenAI in Asset Management

Indicative – non-exhaustive

Application area	Function	Market example of GenAI
Front office	Sales and marketing	<p>Customer profiling and personalized recommendations: GenAI is used to analyze customer data, including transaction history, preferences and behavioral patterns, to create detailed customer profiles that can be used for personalized investment recommendations</p> <p>Virtual assistants/chatbots: GenAI is used to power intelligent chatbots that support clients with inquiries, provide investment advice and address common client services queries</p>
	Portfolio mgmt. and trading	<p>Portfolio and asset allocation optimization: GenAI is used to optimize the portfolio of asset allocation strategies by performing automated market screening of historical market data and risk factors. In addition, it simulates various market scenarios to support Asset Managers in deriving and adapting portfolio and asset allocation strategies</p> <p>Research: GenAI is leveraged to analyze large volumes of news articles, social media data and other unstructured data sources to provide insights into market trends, sentiment analysis and investor behavior, which ultimately help to identify emerging patterns and support Asset Managers to stay informed about market dynamics</p>
	Operations	<p>Customer onboarding: GenAI is leveraged to assist in reviewing necessary documents and KYC activities, i.e., document-gathering and check for completeness, reading and system input of key data, error/inconsistency checking, account opening and preparation of related documentation</p>
Middle and back office	IT	<p>Support in code writing and legacy code translations: GenAI is used to assist with code writing/translating legacy codes between different programming languages</p>
	Business mgmt. and support functions	<p>Risk assessment and fraud detection: GenAI is used to analyze transaction data, market data, and other risk-relevant information to identify potential risks, such as fraudulent activities and compliance breaches, by flagging suspicious transactions or patterns, thereby enabling Asset Managers to take preventative measures to mitigate risks</p>

■ Conversations
 ■ Summarizing and Research
 ■ Data analysis

When vision meets reality, six organizational and technical requirements need to be met in order to bring GenAI to life

Organizational and technical requirements for GenAI in Asset Management

1. AI org. and operating model

- Embed GenAI in the AM organization (decentralized vs. central org.)
- Integrate GenAI into the Asset Management operating model

2. Risk, regulation and compliance

- Adhere to relevant regulations (e.g., EU AI Act)
- Consider AI-relevant risks (e.g., reasoning behind and traceability of AI-enabled investment decisions)

3. Cloud transformation

- Leverage GenAI as a driver of cloud transformation, due to the high data volumes and computing power

4. “Sandbox” approach

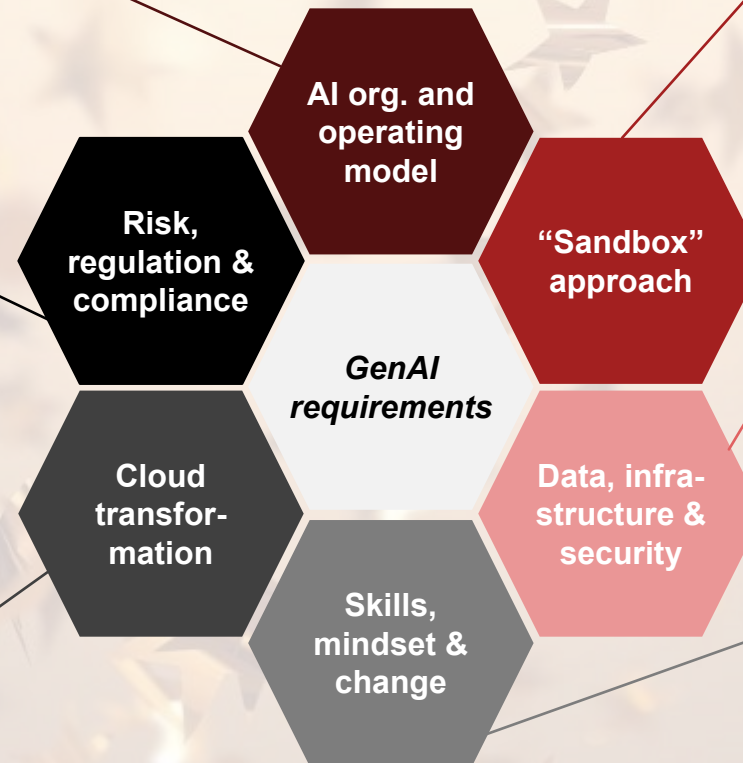
- Realize quick wins via GenAI pilots in secure cloud environments

5. Data, infrastructure and security

- Ensure data availability, quality and transparency, having regard to data privacy policies

6. Skills, mindset and change

- Ensure technical and end-user skills and capabilities (upskilling)
- Achieve “data-driven” mindset change and effective change management



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Thank you

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