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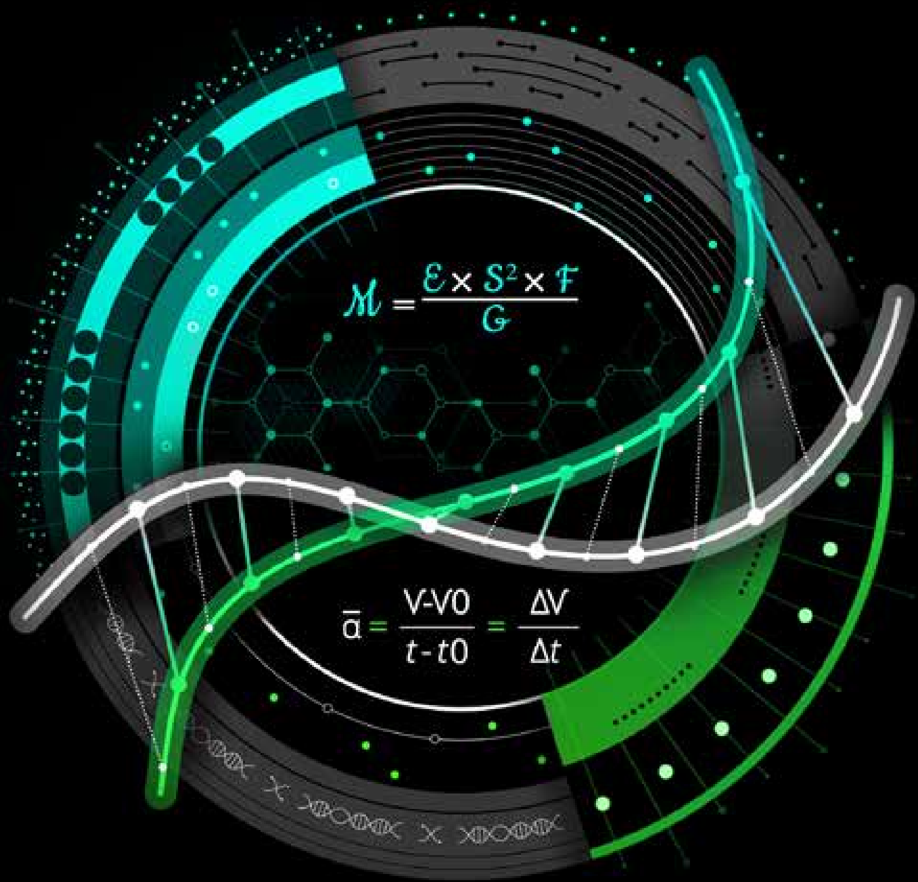
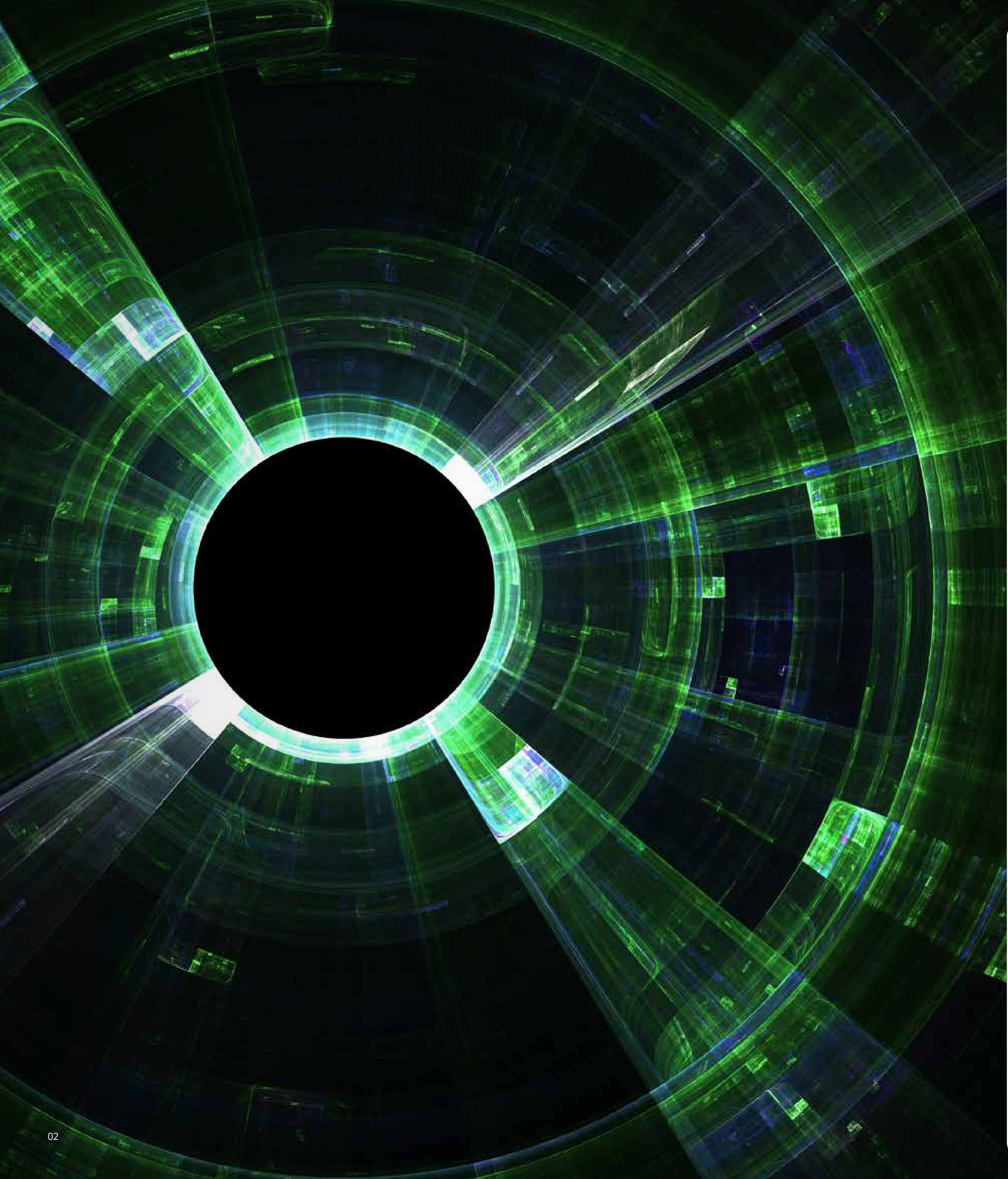


Key trends, challenges, and market insights on traditional and alternative asset managers

EMEA Asset Manager Survey

June 2022



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Executive summary

Methodology and scope

- 11 asset managers (AMs) with a combined €9.7 trillion of assets under management (AuM) contributed to the EMEA Asset Manager Survey conducted by Deloitte Luxembourg and Deloitte Ireland. Headquartered in five countries across Western Europe, the AMs interviewed were a representative sample of the industry, covering a range of organizations including liquid-only or illiquid managers, those belonging to larger financial groups, independent firms, or insurance companies, and those who manage either in-house or third-party funds.
- Where relevant and possible, this document breaks down the global trends from respondents between two clusters: a) AMs with either more or less than €100 billion of AuM; and b) Liquid-only or illiquid managers.

#1. General information

#2. Business strategy

#3. Product strategy

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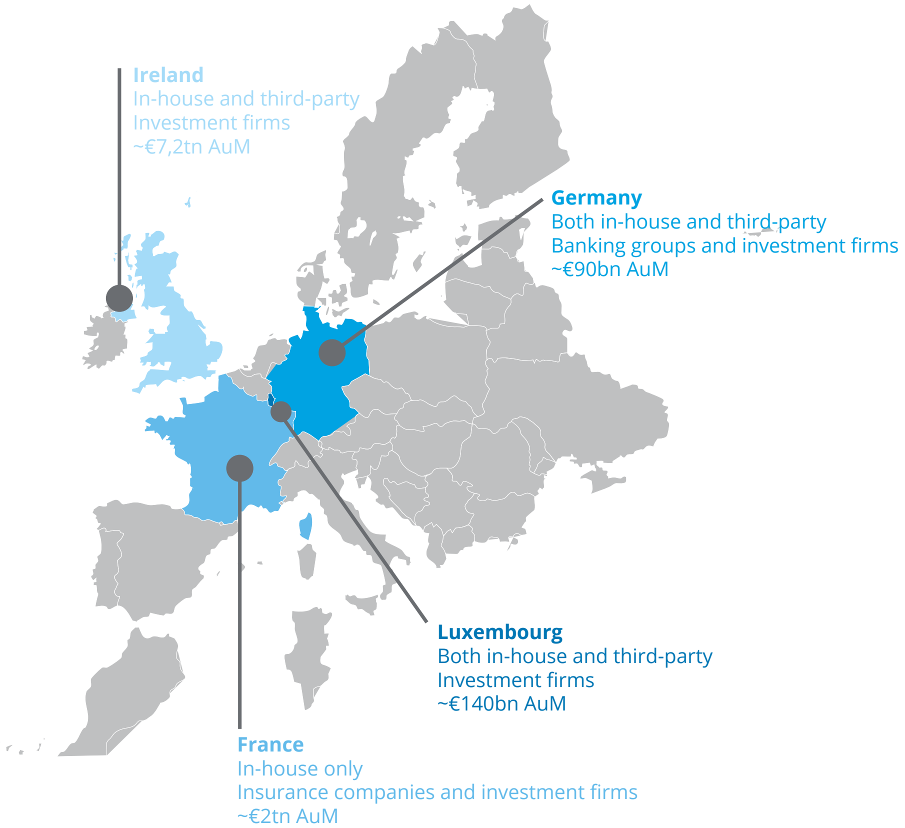
Introduction

Overview of respondents

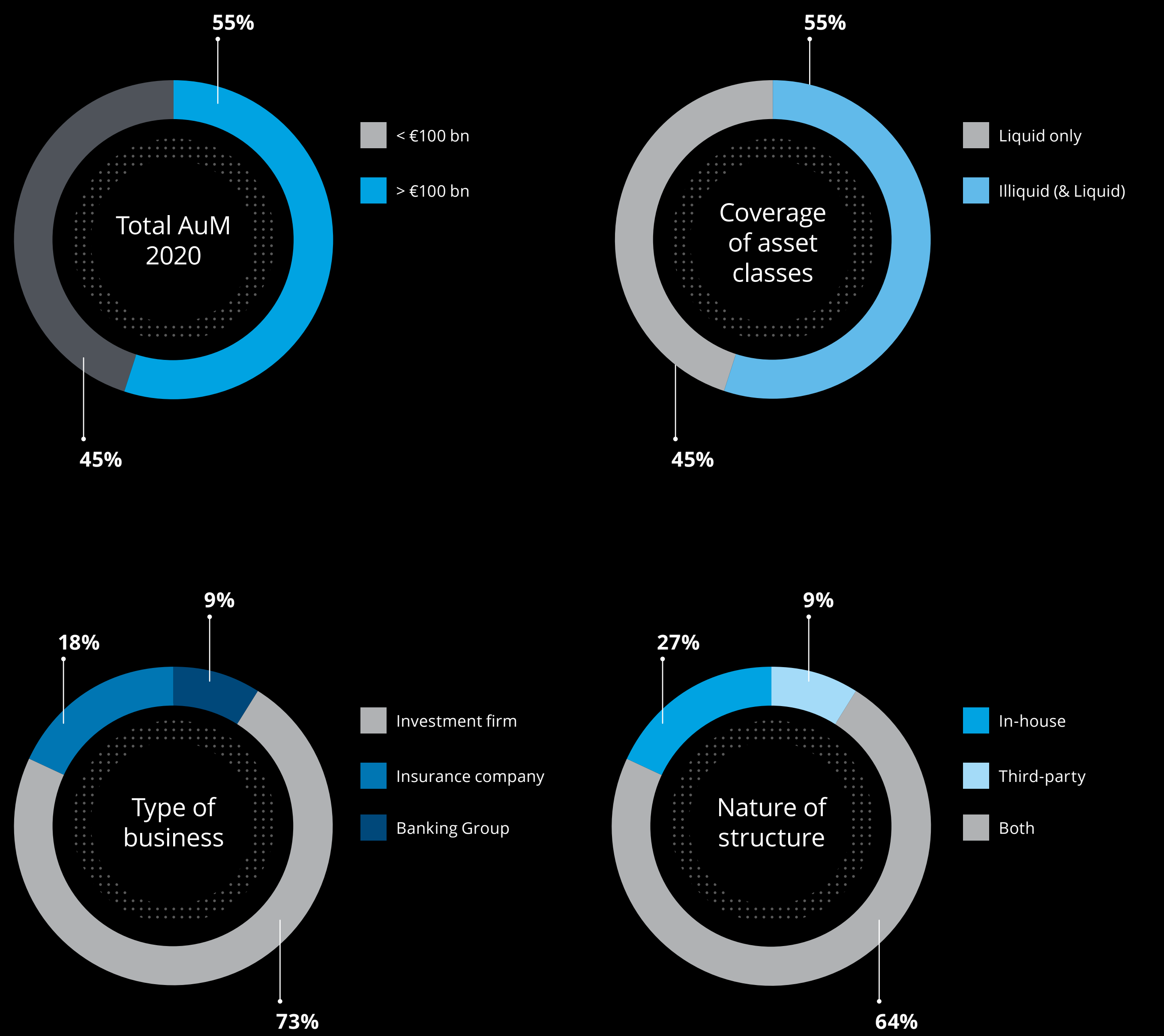
ALL RESPONDENTS ARE HEADQUARTERED IN WESTERN EUROPE AND REPRESENT A RANGE OF CHARACTERISTICS.

11 asset managers in Western Europe with combined €9.7tn AuM (~10% of global AuM[1])



Respondents were balanced across their AuM size and their asset class coverage. Where relevant, the analysis distinguished whether these groups' answers were different or similar.

1 Source: Statista 2021: Value of Assets under Management worldwide.

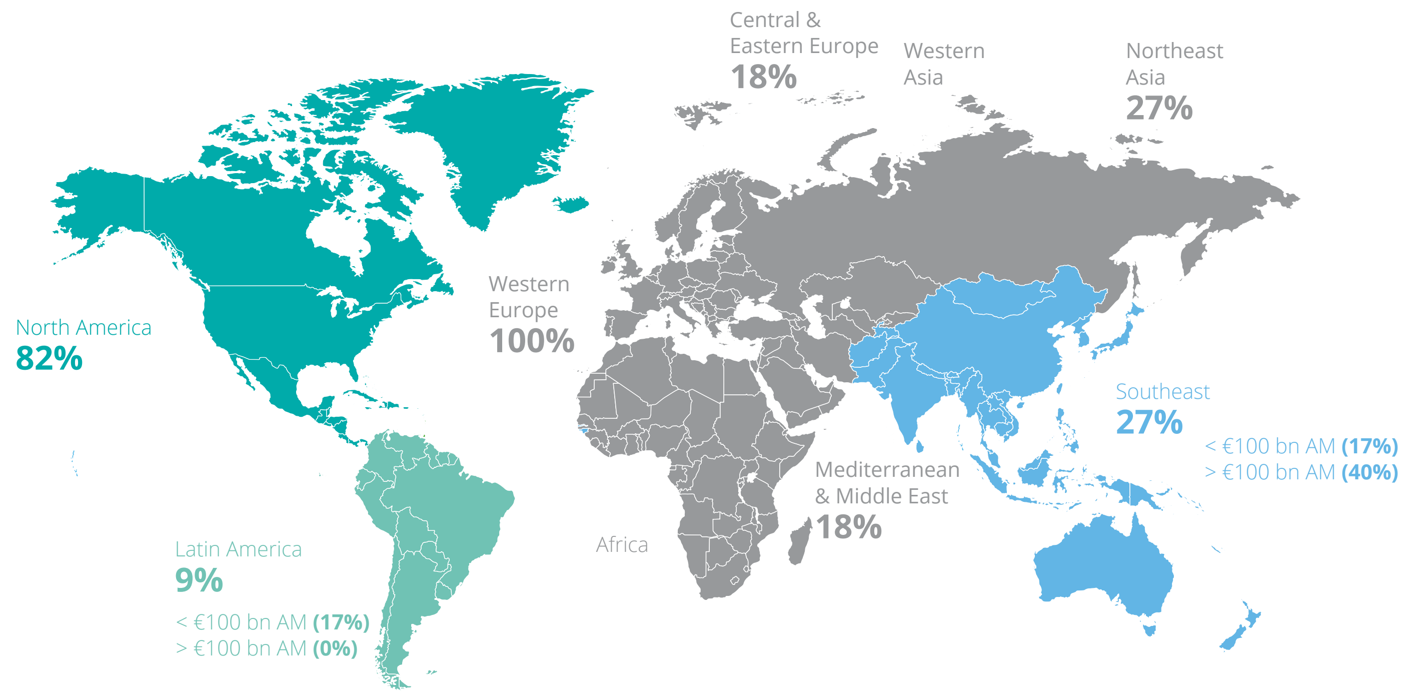


#1
General information

Top markets and distribution countries

DEVELOPED COUNTRIES REMAIN THE MOST IMPORTANT INVESTMENT DESTINATIONS…

Percentage of respondents considering the region as one of their top 3 markets (in terms of AuM)



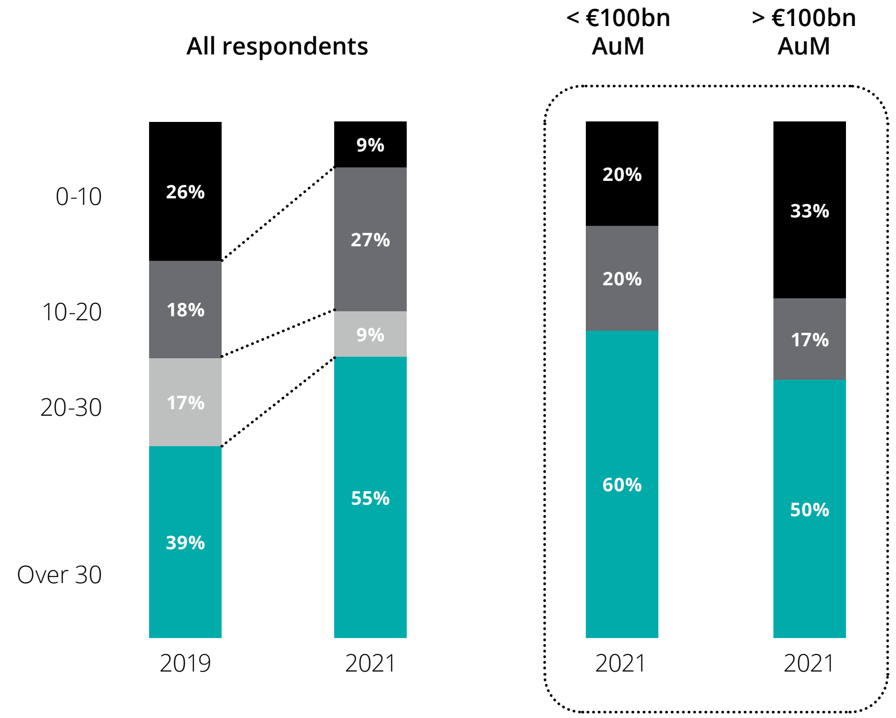
While both small and large asset managers are relatively aligned on the importance of most markets, we note some differences in a few non-traditional investment destinations. Although both groups place similar importance on Northeast Asia and the Mediterranean and Middle East, smaller asset managers seem to favor Latin America while larger asset managers seem to shift their focus towards Central and Eastern Europe and Southeast Asia.

Western markets remain among the top three investment destinations for all kinds of asset managers…

Number of countries of distribution

Whilst developed countries remain the largest markets for investment, the number of distribution countries per asset manager is increasing significantly. Over half of our respondents indicated that their countries of distribution stretch across 30 different regions, an increase of 16% since 2019.

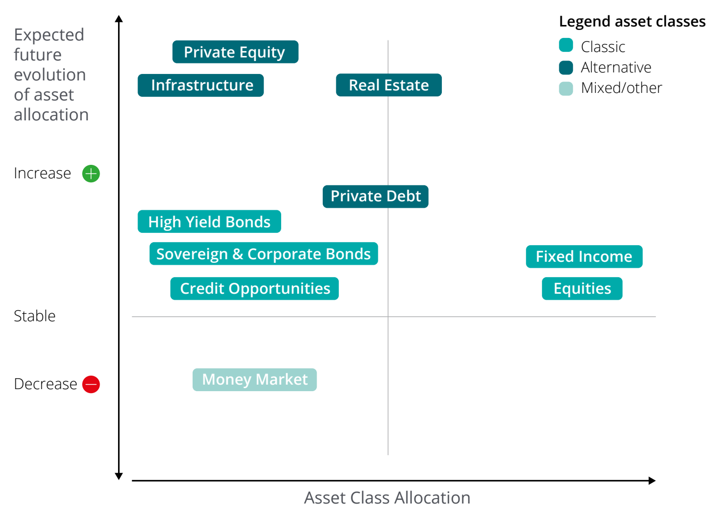
…but the number of distribution countries is increasing. Over half of respondents indicate that they distribute to over 30 different countries, regardless of their size.



Asset classes

FIXED INCOME AND EQUITIES REMAINED THE MOST WIDESPREAD ASSETS IN 2021, BUT OTHER ASSET CLASSES ARE ON THE RISE.

‘Classic’ assets (equities and fixed income) remain in focus for most asset managers, however they expect to diversify their allocations across other asset classes.



Fixed income and equities remained the most prevalent asset classes in 2021. However, others are on the rise. As asset managers attempt to diversify their allocations due to recent market volatility, expected investor demand, and improvement of returns, alternative classes are likely to take a more important role in asset allocation. Private equity and infrastructure are expected to increase the most, followed by private debt and real estate. Asset managers expect to keep their allocation in equities and fixed income stable while decreasing their exposure to money market instruments.

EMEA Asset Manager Survey | General information

A typical EMEA asset managers’ offering covers four different asset classes; certain types such as private debt are much more likely to be part of larger managers’ offerings.

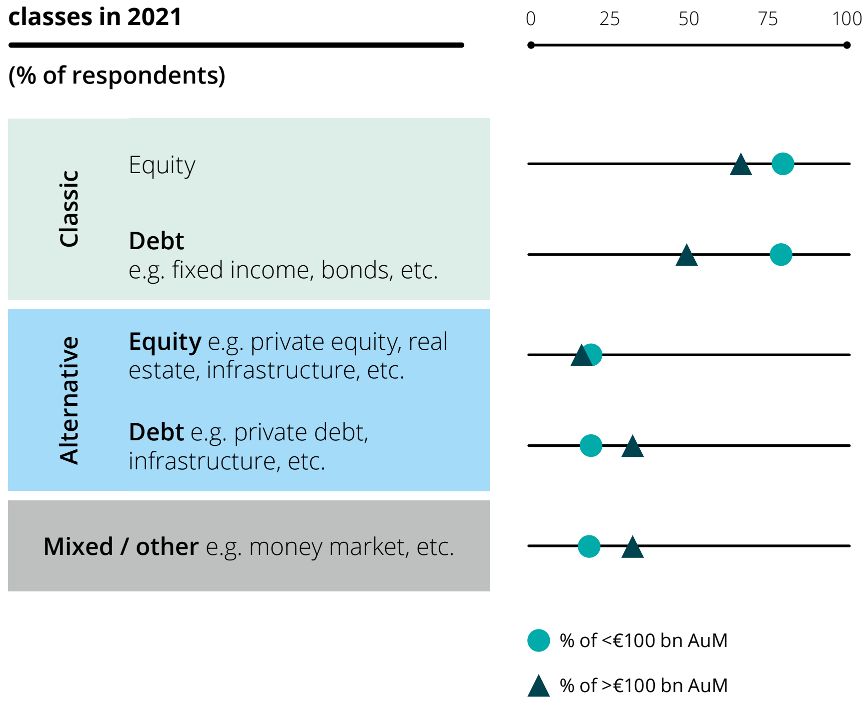
In 2021, the typical asset manager’s product range covered four different asset classes. However, the volume of an asset manager’s AuM may be linked to their proportion of various asset classes. Multi-asset funds, high yield bonds, money market funds, and private debt are more likely to be part of larger (i.e. over €100bn AuM) asset managers’ offerings. Equities (incl. long/short strategies and exchange-traded funds) tend to make up the largest portion of smaller asset managers’ (<€100bn) portfolios, whereas alternative debt instruments (e.g. private debt) accounted for the largest portion of large asset managers (>€100bn) portfolios.

# of asset classes covered

(median)

% of AMs distributing the below asset classes in 2021

(% of respondents)

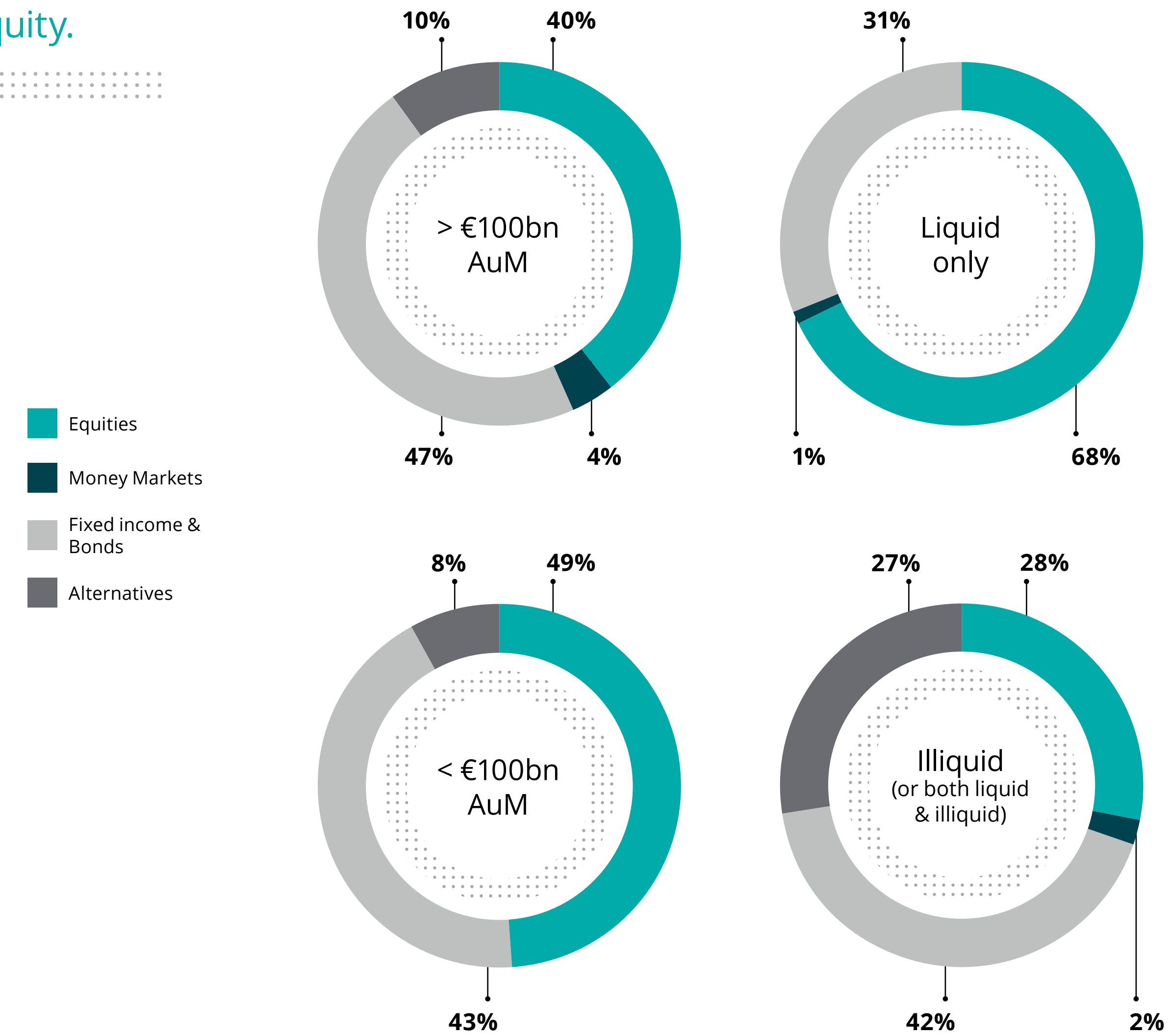


THE DISTRIBUTION OF ASSET CLASSES IS RELATIVELY PROPORTIONATE ACROSS DIFFERENT AUM SIZES AS WELL AS IN LINE WITH EXPECTATIONS FOR LIQUID-ONLY VERSUS BOTH ILLIQUID AND LIQUID MANAGERS.

In 2021, larger asset managers reported lower allocations into classic equity.

Average asset allocation

(% of total AuM)

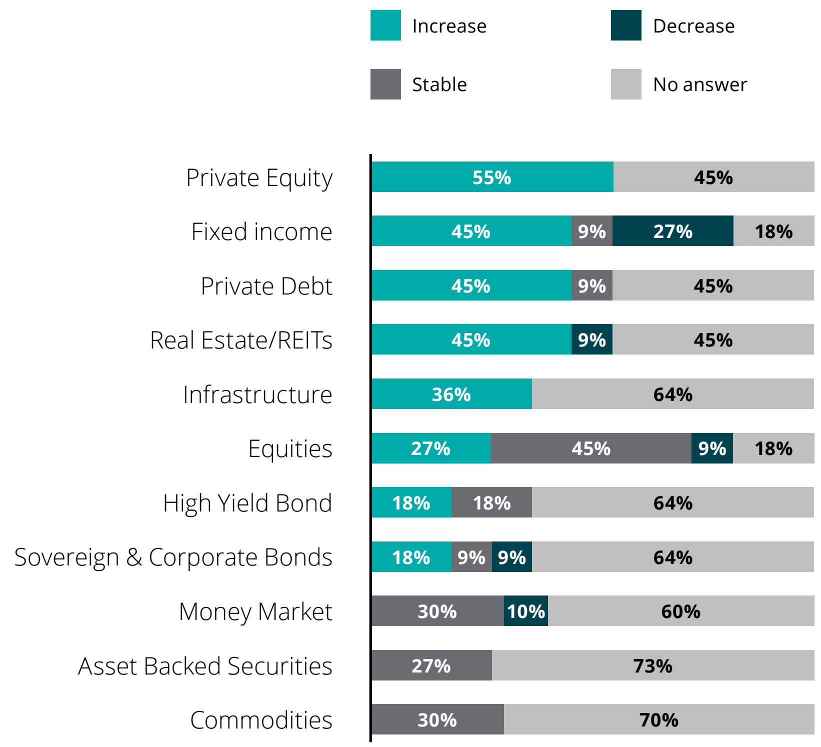


EMEA Asset Manager Survey | General information

FIXED INCOME, PRIVATE EQUITY, PRIVATE DEBT, HEDGE FUNDS, AND REAL ESTATE ARE EXPECTED TO BE THE HIGHEST GROWING ASSET CLASSES WITHIN THE NEXT THREE YEARS.

Expected evolution of asset class within 3 years

(% of respondents)



Between 45-55% of respondents expect to ramp up their asset class allocations in private equity, private debt, and real estate, but also in classic fixed income instruments. On the other hand, asset classes such as money market instruments, asset-backed securities, or commodities appear to be falling out of favor with no respondents indicating expected increases.

Investment strategies

ASSET MANAGERS EXPECT INVESTMENT STRATEGIES IN PRIVATE DEBT AND ESG TO INCREASE THE MOST WITHIN THE NEXT THREE YEARS.

This graph shows the proportion of various investment strategies in the offerings of liquid and illiquid asset managers. Our previous survey in 2019, highlighted private debt and ESG strategies to be on track for experiencing short-term significant growth.

In 2021, 100% of our liquid manager respondents and 70% of illiquid managers indicated ESG investment strategy offerings.

Generally, liquid-only managers reported lower numbers of different investment strategies than their illiquid and liquid counterparts. For both groups, digital asset-oriented strategies are not yet on their agenda and may be worth a consideration to tackle a upcoming investment trend.

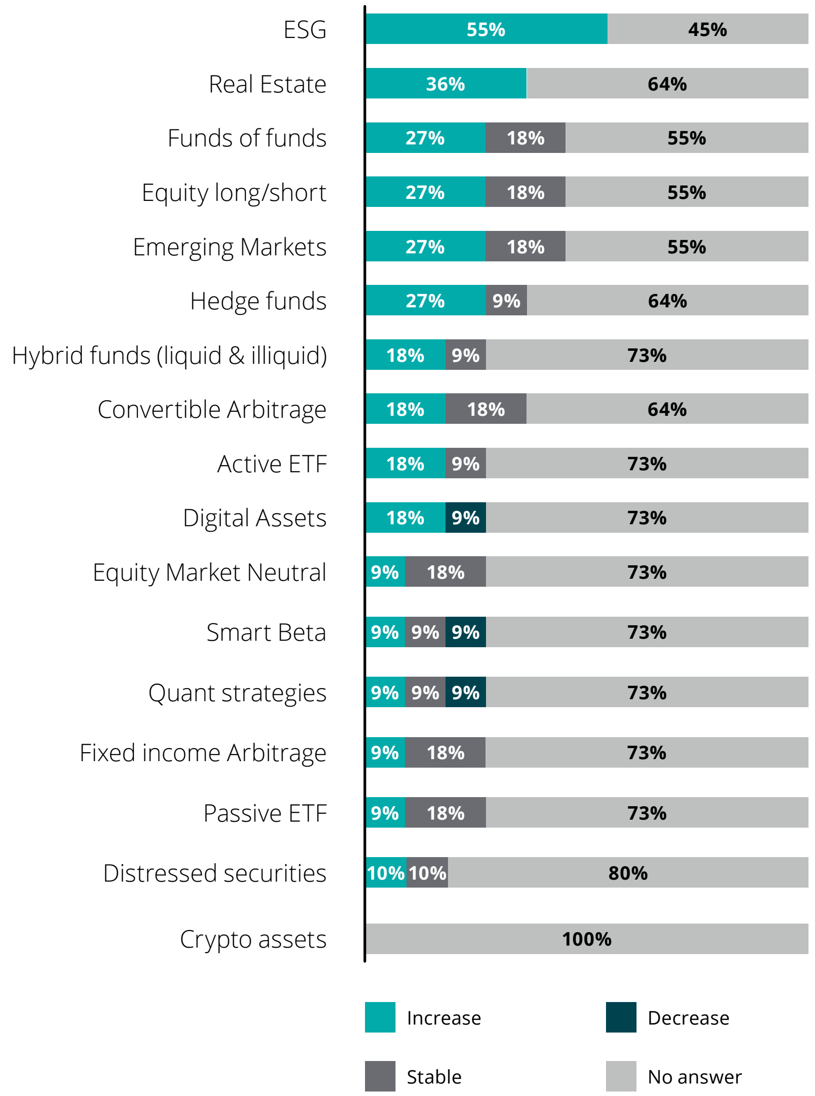
# of investment strategies offered

(median)

While ESG is already at the forefront of asset managers' strategies, and have been for a number of years now, 55% of asset managers expect to see even greater growth in these offerings. 55% of asset managers also expect private debt strategies to gain popularity.

Expected evolution of strategies within 3 years

(% of respondents)



Revenues and costs

ASSET MANAGERS EXPECT INVESTMENT STRATEGIES IN PRIVATE DEBT AND ESG TO INCREASE THE MOST WITHIN THE NEXT THREE YEARS.

Most asset managers—but particularly smaller ones—experienced an increase in revenues in the past three years.

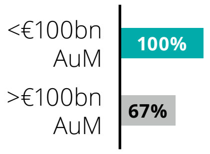
Client and net new money inflow were the main revenue drivers.

The hiring of new staff was cited as the largest factor behind reported cost increases.

Total revenue change in the past 3 years

(% of respondents)

80% of asset managers have increased their revenues



Asset managers with <€100bn AuM were more likely to experience revenue increase

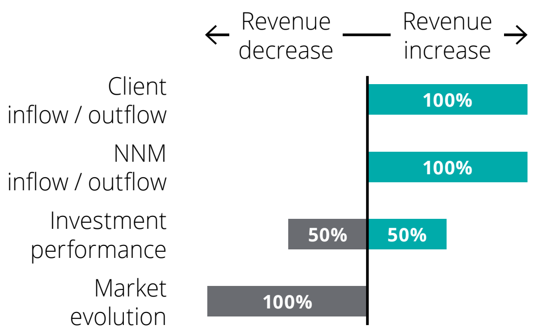
60% of asset managers have increased their revenues **by more than 10%**

80% of asset managers recorded revenue growth over the last three years, with 60% of respondents doing so by more than 10%.

Interestingly, asset managers with under €100 billion AuM were more likely to increase their revenues from winning new clients, whereas those with over €100 billion AuM indicated their primary revenue driver to be inflow of net new money (NNM).

Main driver behind the revenue change

(% of respondents)



Main revenue driver for:

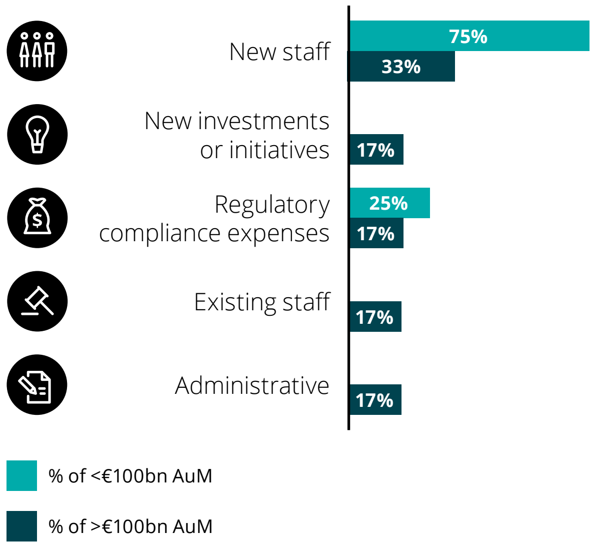
AMs with **<€100 bn AuM** **Client inflow**

AMs with **>€100 bn AuM** **NNM inflow**

The main drivers behind this growth in revenue for many differed depending on the size of the Asset Manager. Revenue for asset managers with less than €100 billion AuM have been predominantly driven by client inflow whereas revenue for asset managers with more than €100 billion AuM has been driven by NNM inflow.
Only half of asset managers stated that their increased revenue resulted from investment performance in 2021. 100% of respondents felt market evolution was lagging which had contributed to a decrease in revenue in 2021.

Main driver behind cost evolution

(% of respondents)



Asset managers with less than €100 billion AuM mostly cite the employment of new staff as their main cost driver along with expenses for regulatory compliance.

While revenue increased for the majority of asset managers in 2021, so too did the costs in a number of areas.

Smaller asset managers cost increases were concentrated in two areas: 75% of respondents stated that their biggest cost increase is the acquisition of new staff members (which could be a good indicator of ramping up staff for scalability and growth purposes) while 25% stated that costs associated with regulatory compliance have been the main contributor.

The drivers behind increased costs for larger asset managers were more varied across new investments, compliance, existing staff, and administrative expenses. However, the most common driver in this group at 33% was also the costs associated with hiring new staff.

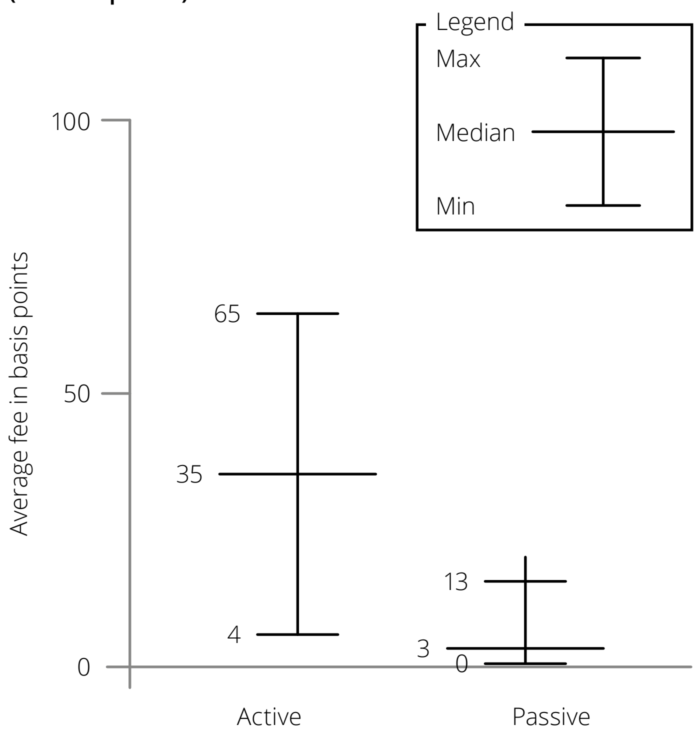
Asset management fees

ASSET MANAGERS NO LONGER FOCUS ONLY ON LOWERING THEIR FEES TO MAINTAIN THEIR COMPETITIVE POSITION.

Asset managers charge a wider range of fees on active products, justifying their value proposition...

Average fee charged on active / passive products

(in basis points)



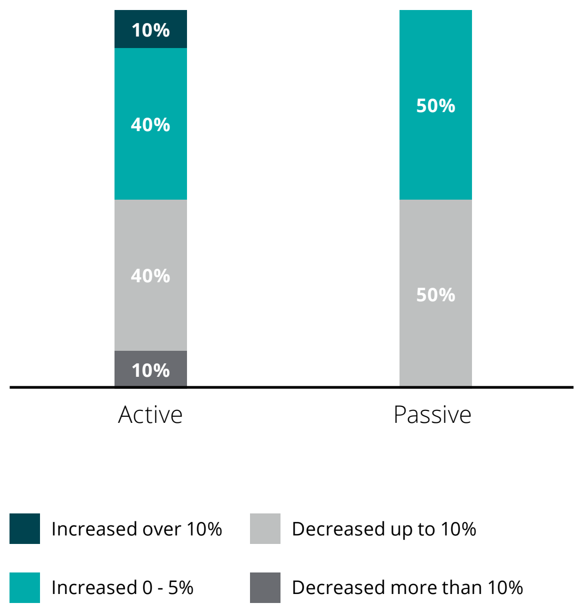
In recent years, asset managers have experienced significant pressure to reduce their fees due to the increase in popularity of passive products. However, the value proposition they bring on active products and investment strategies remains in place, with a wider range of fees charged than on passive products.

Despite this position, there is no definitive trend of decreasing fees across all products in 2021. As a matter of fact, 50% of respondents increased their asset manager fees on both active and passive products.

... however no clear trend to decrease fees across all products could be observed in 2021.

Change in average fees in the past 3 years

(% of respondents)



Changes in fees were mainly done to gain clients or to align the fees internally and externally.

The evolution of investors' expectations on fees is the **second main perceived upcoming challenge** according to asset managers, after regulatory environment evolution.

Asset managers declared that the change in investors' expectations on fees is the second main perceived upcoming challenge after the evolution of the regulatory environment.

In the current economic market, investors are reluctant to pay high fees on investment products—but should they do so, then they expect the asset manager to generate excess returns above the hurdle rate where applicable.

According to asset managers, investors do not "expect to pay high fees only if they get high return or non-financial impacts"

Main reasons behind the fees' evolution

(from most to least important)

Main reasons for fee increases

- #1 To align our **product range**
- #2 To align with **competitors**
- #3 Improve **operating margin**

Main reasons for fee decreases

- #1 To attract new **clients**
- #2 To align with **competitors**
- #3 To **prevent client outflow**

#2 Business strategy

Dealing with the impact of COVID-19 on employees and firms

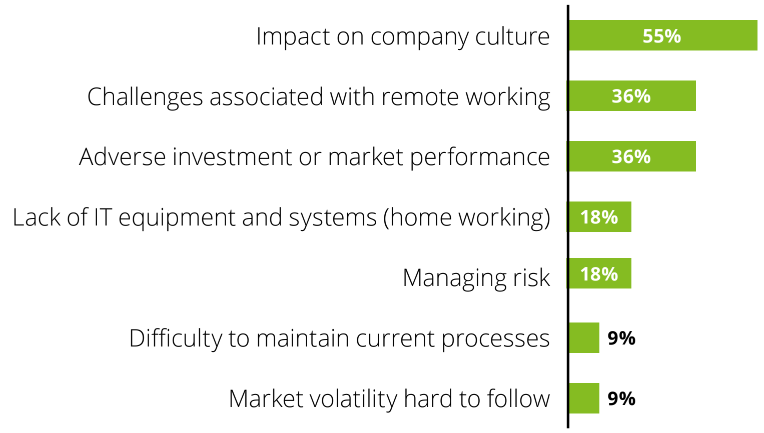
The fall-out of the COVID-19 pandemic was mainly seen as having an impact on company culture, with most asset managers revising their policies and ways of working to accommodate this.

The COVID-19 pandemic affected the way in which people work across numerous industries, including the asset management sector. Asset managers deem the effects on company culture as the greatest impact with 67% of respondents revising their policies and ways of working in light of the new 'normal'. 44% of them ramped up their digital capabilities or initiated new systems or technology to quickly adapt to the new environment in which they were operating.

In line with this, 36% of asset managers stated the difficulties associated with remote working to be the primary challenge faced throughout the pandemic.

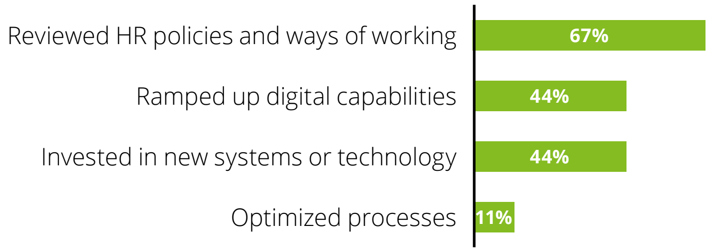
Main challenges from COVID-19

(% of respondents)



How COVID-19 challenges were adressed

(% of respondents)

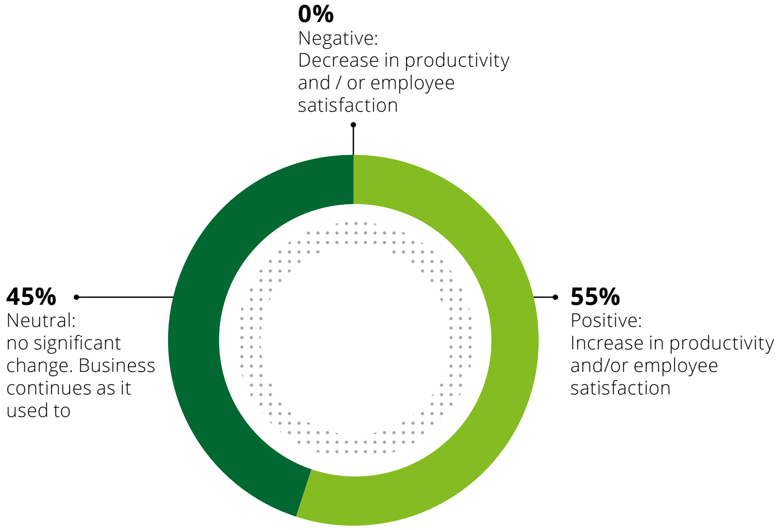


Nevertheless, COVID-19 had a predominantly positive impact on the industry with asset managers reporting higher productivity, greater employee satisfaction, and accelerated digitalization.

Despite the whirlwind that the onset of the COVID-19 pandemic caused, asset managers are retrospectively viewing it in a positive light. 64% of them reported that COVID-19 led to the acceleration of digital initiatives within their companies. 55% reported that the pandemic positively impacted the company culture, with an increase in productivity and employee satisfaction.
There is no denying that the pandemic has made a significant, long-lasting impact on the industry.

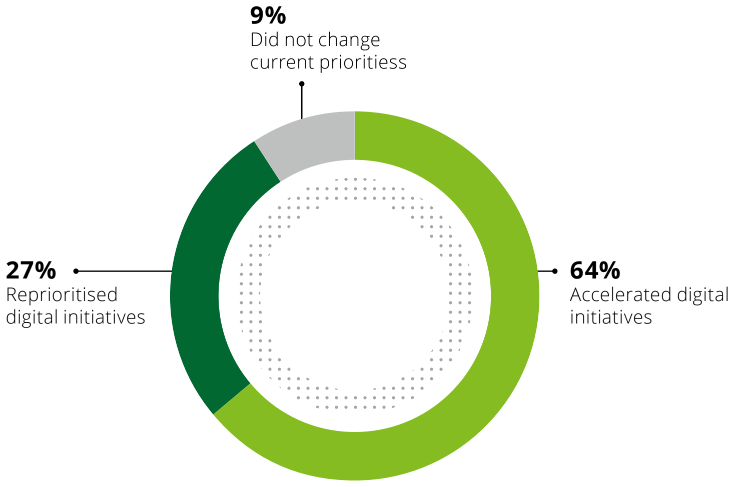
Perceived impact on employees and the company culture

(% of respondents)



Perceived impact on employees and the company culture

(% of respondents)

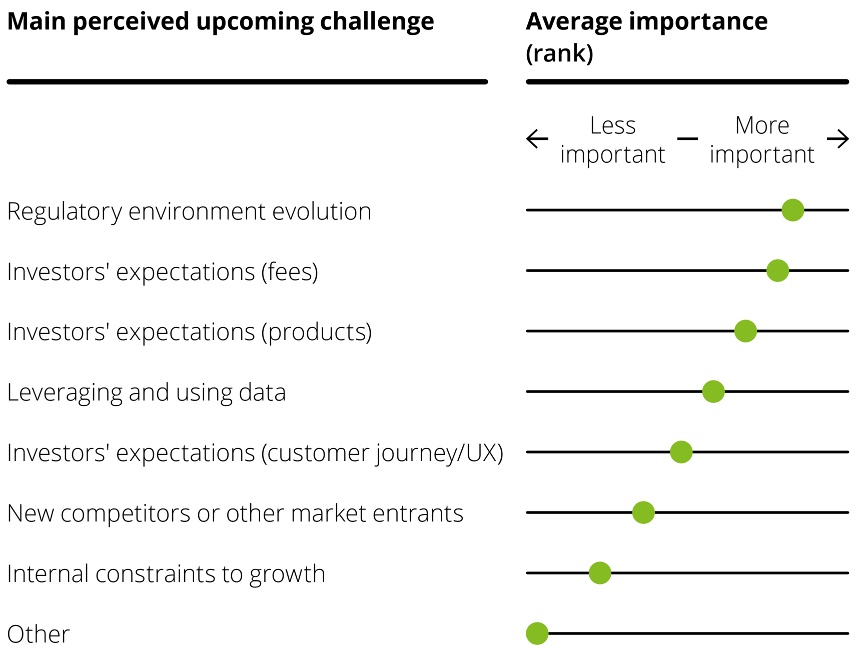


EMEA Asset Manager Survey | Business strategy

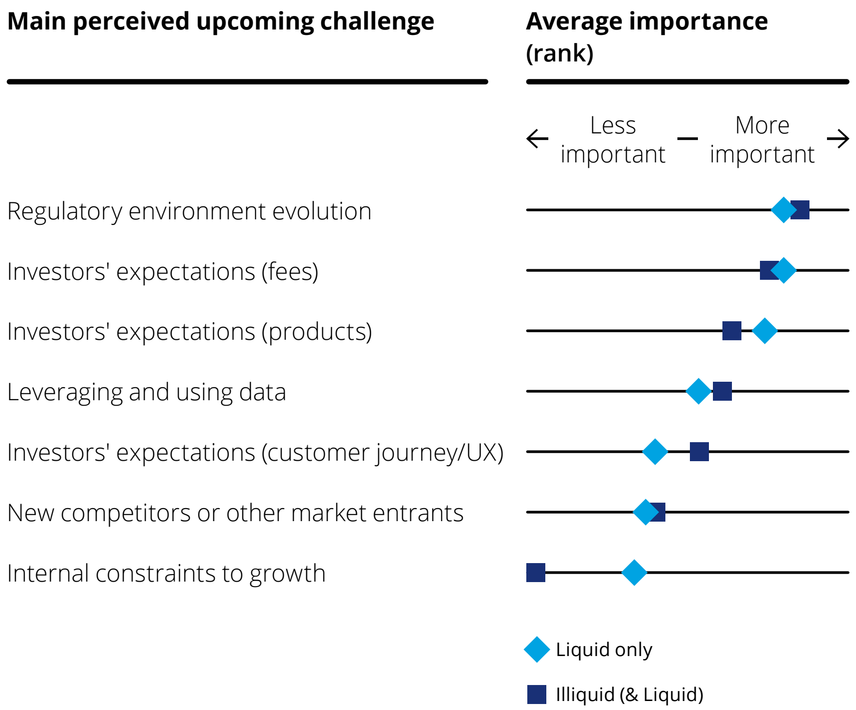
Upcoming challenges for the asset management industry

As the COVID-19 pandemic evolves and countries seek a return to a 'new normal', asset managers are now shifting their focus towards new, upcoming challenges in their industry. Asset managers deem the evolution of the regulatory environment alongside investor expectations of fees to be the main challenges on the horizon. Interestingly, asset managers are less concerned about internal constraints to growth and new competition in the market.

The evolution of the regulatory environment along with investor expectations are the main perceived challenges of asset managers.



The holistic view reveals very little difference in the relevance of the challenges for the asset managers.



Providers expect greater and more complex challenges in the future, driven by customer expectations or inefficient internal processes. The respondents seek to secure market advantages through technological advances and promote strategic innovations. The ongoing automated portfolio allocation is seen here as a major challenge, but with huge opportunities.

The changing regulatory environment is highly relevant, the highest proportionate investments are also made here (see previous slide). On average, asset managers spent 5% of their revenues from 2020 on product development with this investment seeking to satisfy customer expectation for new offerings.

#3

Product strategy

Investors’ expectations

ASSET MANAGERS NO LONGER FOCUS ONLY ON LOWERING THEIR FEES TO MAINTAIN THEIR COMPETITIVE POSITION.

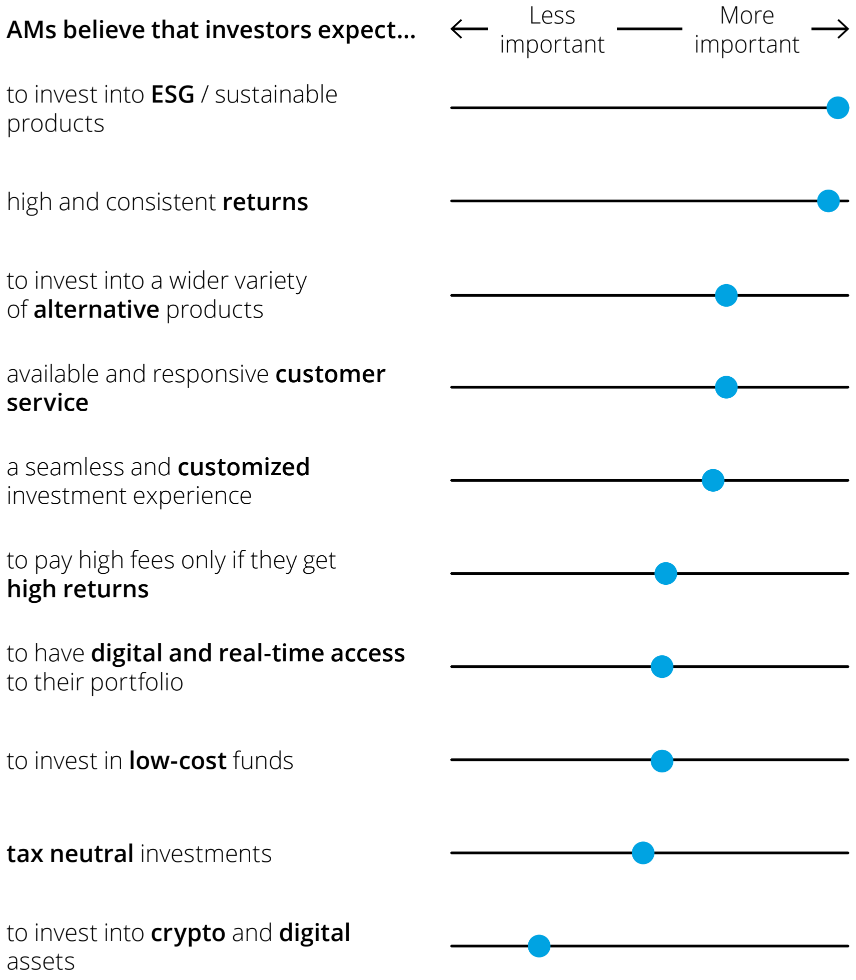
To attract and satisfy investors, asset managers need to anticipate their clients’ needs and ambitions.

Historically, traditional satisfaction drivers were usually related to financial returns—however, the current trends seem to be calling for change. Although returns remain of great importance to investors, other financial considerations seem to be less so than the actual type of investee targets (e.g. ESG, alternatives, etc.) and the customer experience. According to asset managers, clients now consider the client experience a company provides as important as its products and services.

Therefore, to stay in the race and keep up with competition, asset manager professionals need to adapt their services, enhance their products offerings, and tailor interactions and relationships with their clients.

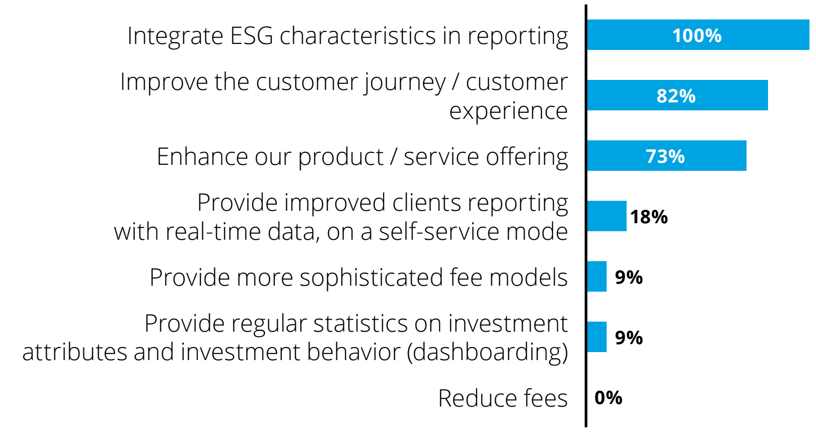
Asset managers believe that many investors expect to find ESG/sustainable products in their product catalogue, along with high and consistent returns...

Investors’ main expectations and satisfaction drivers | **Average importance (rank)**



How asset managers plan to meet investors’ expectations

(% of respondents)



...and the services that will be developed over the next 12 months are designed to meet those expectations.

ESG

Investors' growing expectations for sustainable funds are fueling a great momentum in the asset managers' landscape. Sustainability is now playing a central part in the investment management ecosystem.

With the European Union's action plan on sustainable finance and the application of the Sustainable Finance Disclosure Regulation in 2021, asset managers are now urged to integrate sustainability into their strategies and their sustainability-related products. In response, there is a growing percentage of asset managers integrating sustainability-related products or planning to do so in the near future.

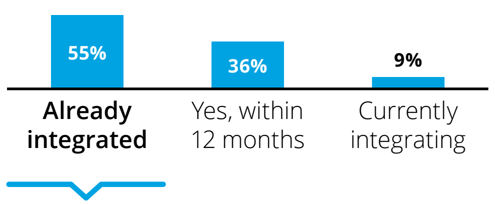
Asset managers can integrate SRI strategies in a variety of ways. Although ESG integration and negative screening remain the most widespread SRI strategies, especially for large asset managers, we observe the development of more complex strategies such as thematic or impact investing. The latter is actually more developed among small asset managers, as they usually have a specific positioning.

And the trend is not expected to decrease any time soon. Pushed by regulatory pressure and investors' demands, asset managers expect to increase their AuM with SRI-strategies by more than 50% over the next three years, driven further by the rise of SRI in alternative investment funds, after the "green wave" of UCITS.

Over 50% of asset managers already offer sustainability-related funds with a variety of strategies, among which integration and exclusion appear to be the most popular.

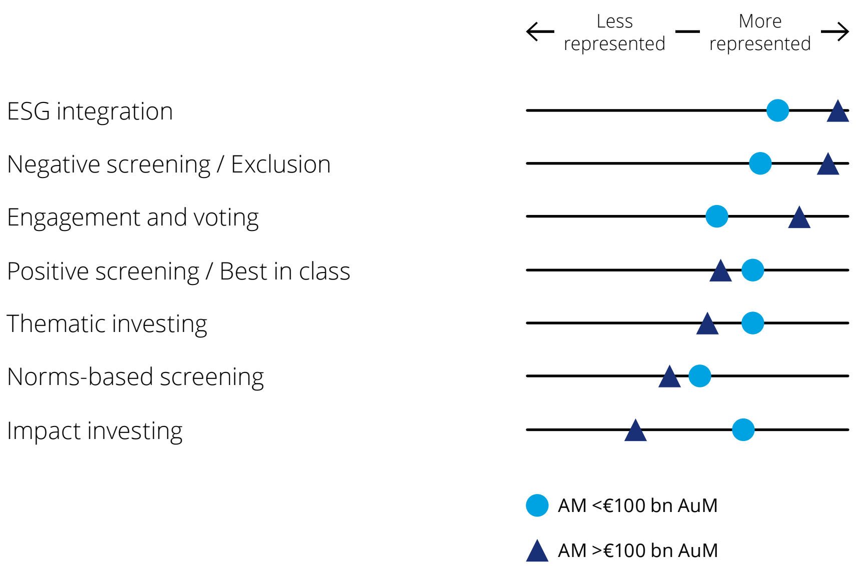
% of asset managers planning to integrate sustainability-related products

(% of respondents)



SRI strategies used in asset managers' portfolios

Average representation (rank)

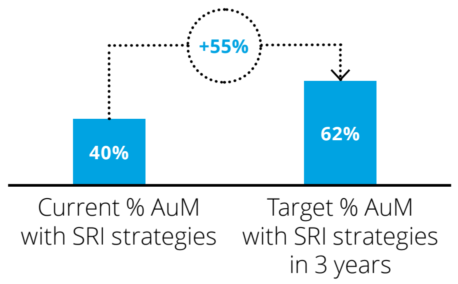


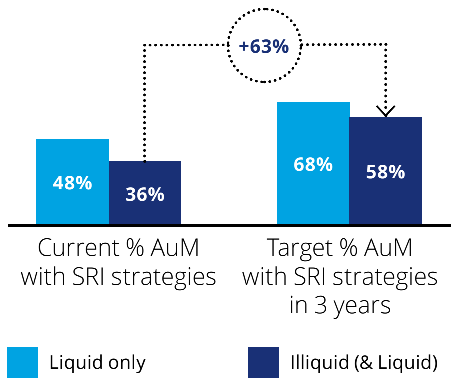
The trend shows no sign of slowing. On average, respondents reported they will be increasing their AuM in SRI strategies by over 50% within the next three years.

On average, "liquids only" managers reported an already higher proportion of SRI strategies in their portfolios than managers who also have illiquid assets. Yet this latter group expects to ramp up their allocation by 63% in the next three years.

Target and current % AuM with SRI strategies in 3 years

(%)





Real assets

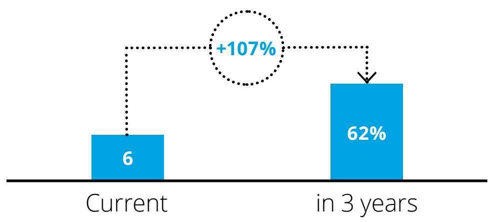
Renewed attention has been placed on real assets.

It has been widely recognized for years that investing in real assets has the potential for long-term profitability, as the cash flows they generate are more predictable than those of listed assets. The fact that they are not listed also makes them more resilient than most other asset classes. Real assets have therefore always been an attractive solution for diversification for investors.

Asset managers intend to more than double their allocation into real assets, mainly to offer a wider range of investment products to their clients.

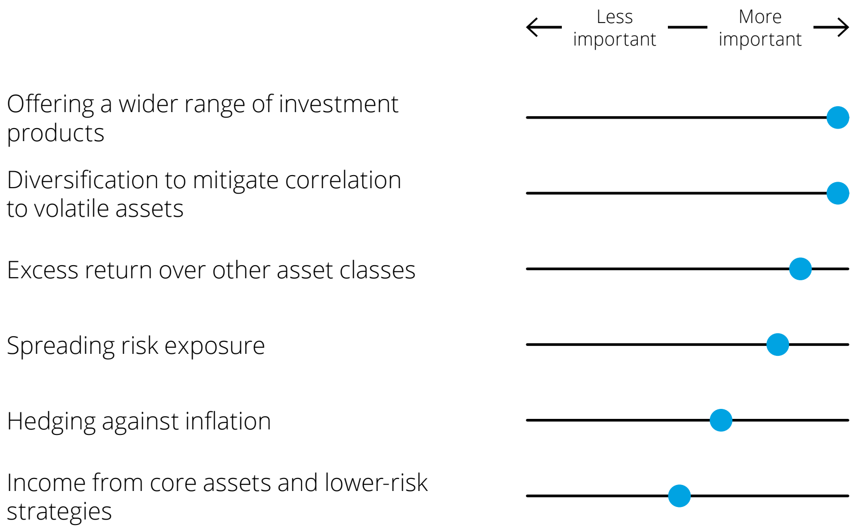
Proportion of AuM invested in real assets

(average % of total AuM)

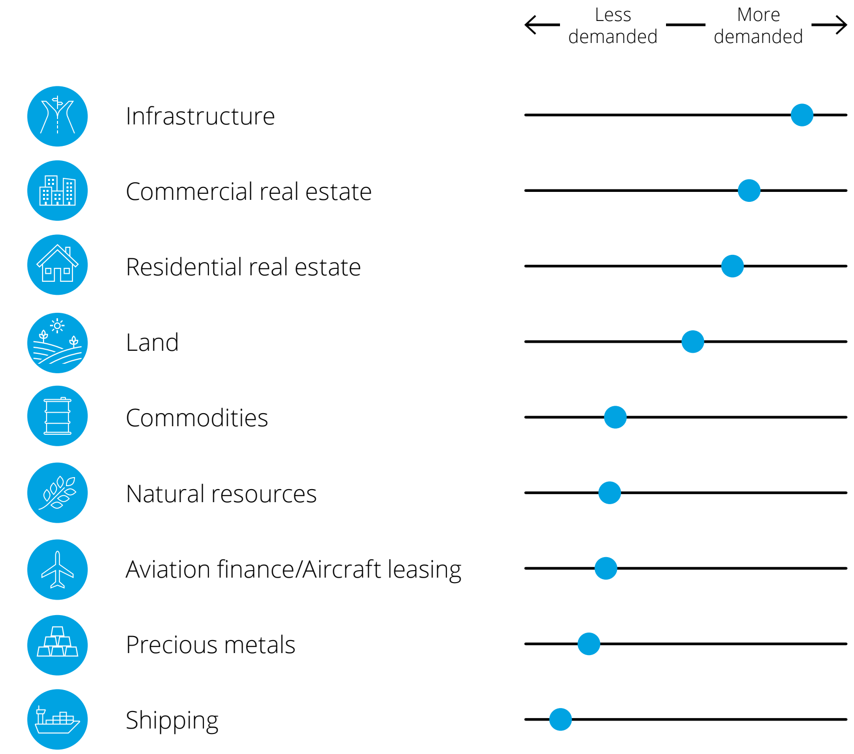


- Real Assets are a fast-growing Asset class with different sub-classes such as Real Estate, Infrastructure, Ships, etc.
- We assume the high growth expectation is also driven by ESG factors (e.g. affordable living)

Main reasons to offer real assets products / **Average importance (rank)**



Type of real assets with the most estimated demand / **Average demand (rank)**



Since the COVID-19 pandemic has accelerated some already-existing long-term trends that has driven economic growth, it may also have fueled the development of great investment opportunity in real assets. These trends include the rising demand for sustainable energy, renewed focused on public health, and equal access to a safe and reliable food supply. This explains why survey respondents agree on considering infrastructure and commercial and residential real estate as the most in demand real assets for investors.

The type of real assets with the most potential for growing investor demand in the short-term are infrastructure and commercial as well as residential properties.

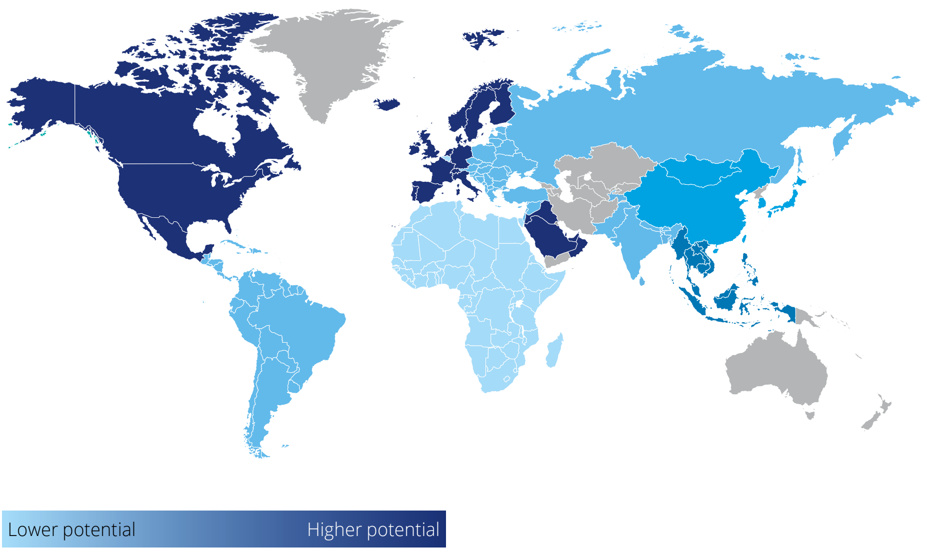
Geographical focus

Although asset managers diversify their investments from a geographical point of view, western industrialized regions are still perceived as the destination where returns on short-term investments remain highest. Many factors contribute to this lasting trend:

- **Capital availability:** Thriving economies result in growing investable capital
- **Competitiveness:** The development of infrastructure and presence of a strong workforce (both in terms of numbers and aptitudes) boost competitiveness, therefore resulting in more robust returns for investors
- **Regulatory environment:** The promotion of investments and entrepreneurial activities by governments through attractive financial incentives boosts profitability
- **Stability:** A stable political and economic system favors the development of activities and the attraction of investments
- Local market and business climate: High level of consumption drives economies, and thereby investments.

The geographic, investment focus for asset managers lies mostly on western, industrialized countries.

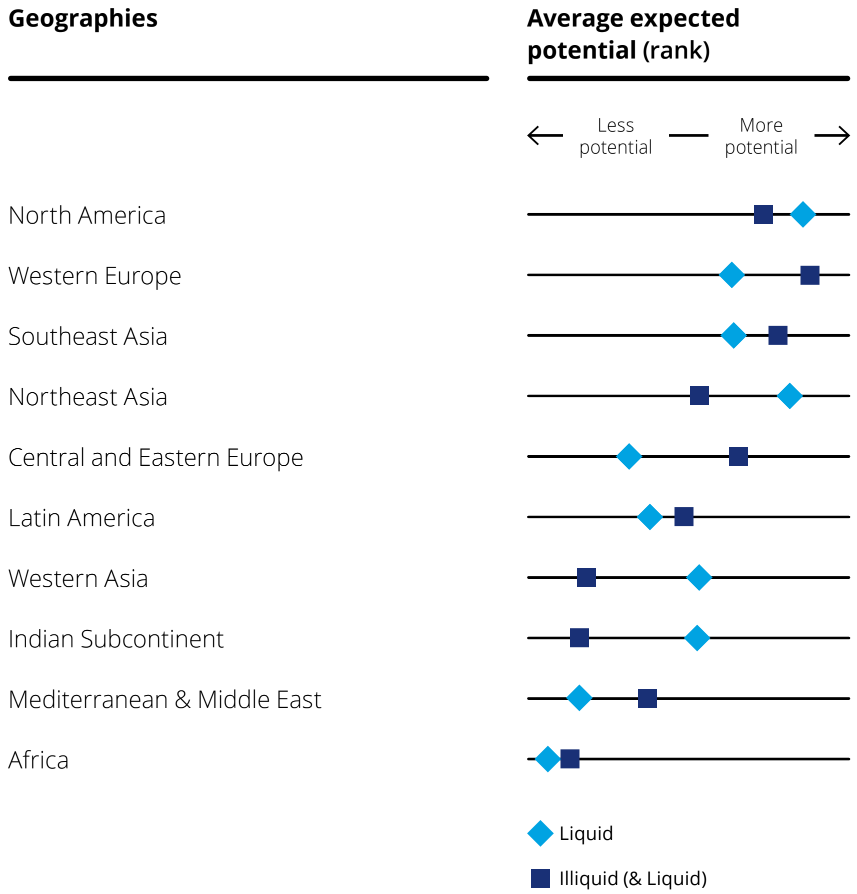
Geographies with highest expected investment returns in the short-term



According to respondents, different regions offer different potential for returns on investment. The expectations appear to be linked to the overall development status of the countries. Western Europe, Western Asia, and North America are perceived to provide the highest potential, whereas the Middle East and Africa are perceived as the lowest.

Asset managers covering different asset classes have similar views on the regions with highest potential—but with some noticeable discrepancies.

- Both large and small asset managers expect the highest growth potential for investment returns in Africa, and the lowest in Western Europe. The ranking is marginally different when looking at the smaller asset managers.
- When looking at liquid only versus illiquid and liquid managers, the trend remains the same, although there seem to be discrepancies between expected returns in Central and Eastern Europe, Western Asia, and the Indian subcontinent.



#4

Data and digitalization

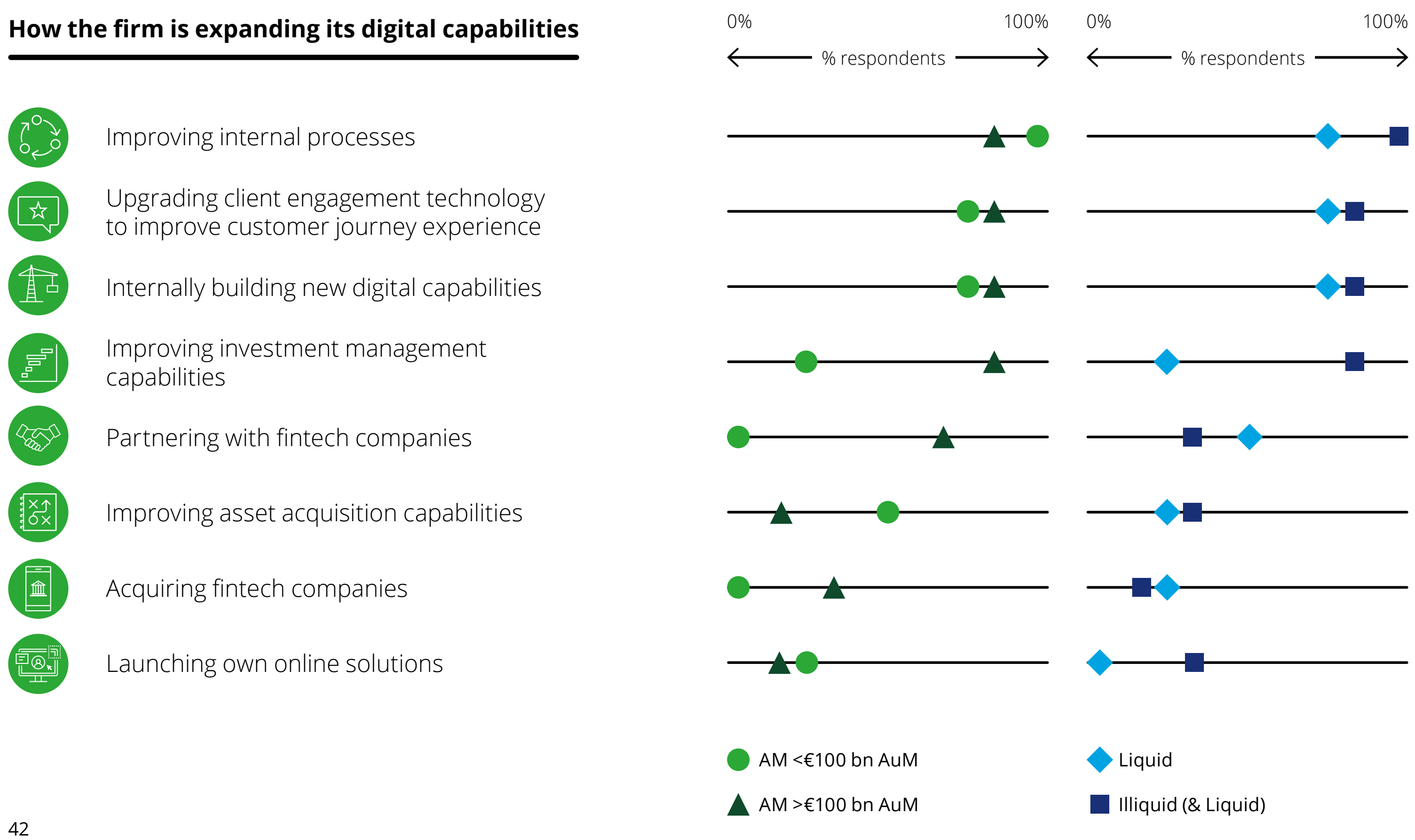
Expansion of digital capabilities

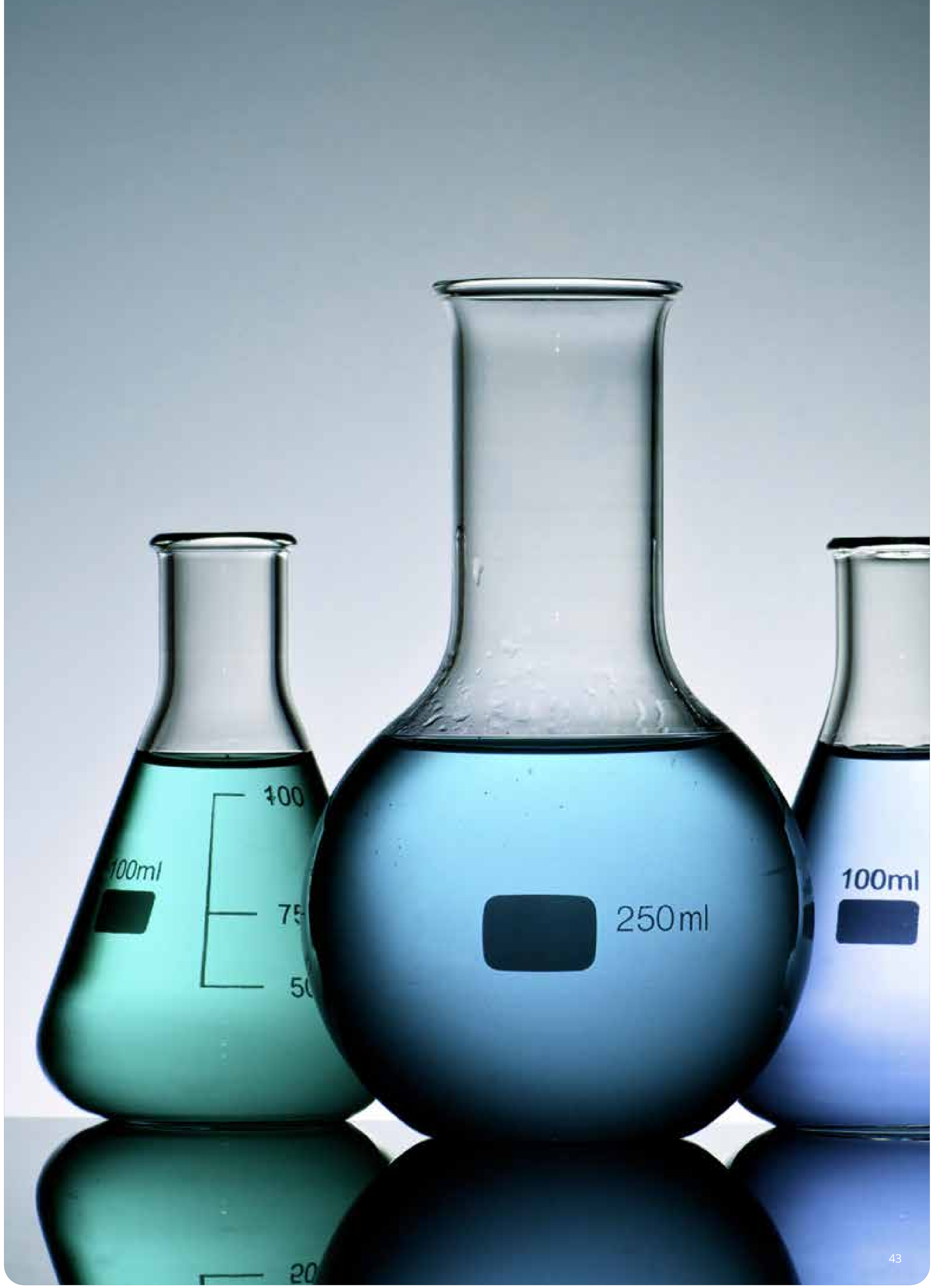
Overcoming challenges in data management and expanding digital capabilities will be key for any asset manager working in today's digitalized world. However, there are different strategies companies may adapt when trying to tackle such challenges.

The focus of asset managers, when expanding their digital capabilities, lies on improving existing capabilities or building new ones internally, rather than acquiring FinTechs or launching entirely new solutions. This can most likely be explained by asset managers' clear preference in the scope to perform data management in-house. However, larger companies are more likely to partner with or acquire FinTechs to build new capabilities, which may be able to plug in more seamlessly with their IT architecture.

The number one focus of digitalization for asset managers overall is to improve their internal processes. AMs with higher AuM are more likely to focus on improving their investment management capabilities digitally and to partner with FinTech companies, than those with lower AuM.

How the firm is expanding its digital capabilities





EMEA Asset Manager Survey | Data and digitalization

The importance of different types of data

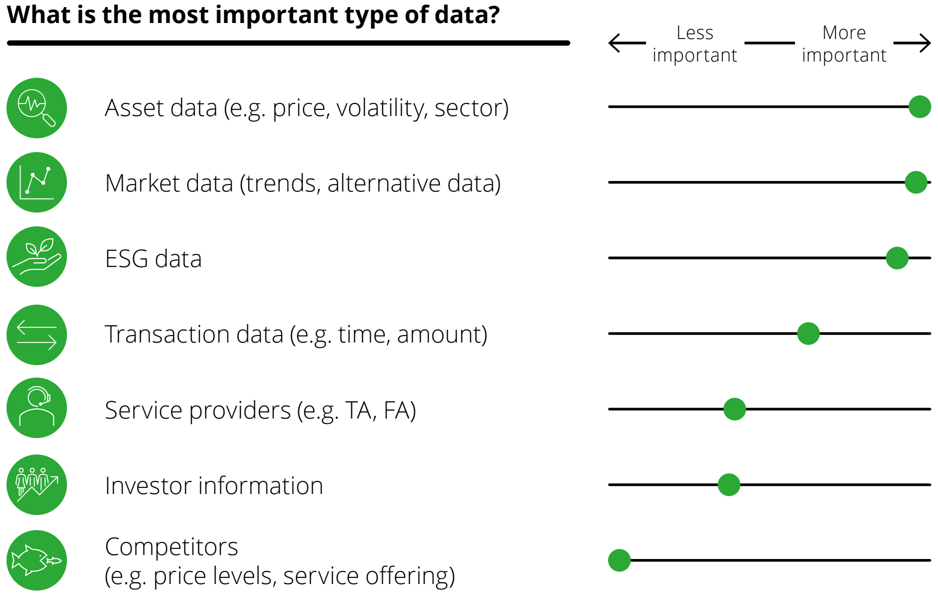
Interestingly, all respondents indicated that they were currently performing their data management in-house. Data constitutes a critical element in an asset manager's business and a preference for having a high degree of control over it is unsurprising.

How is data management performed in your firm?

100% of asset managers in our survey perform their data management **in-house**

Data management is primarily performed in-house, and AMs view asset, market, and ESG data as the most important to their businesses...

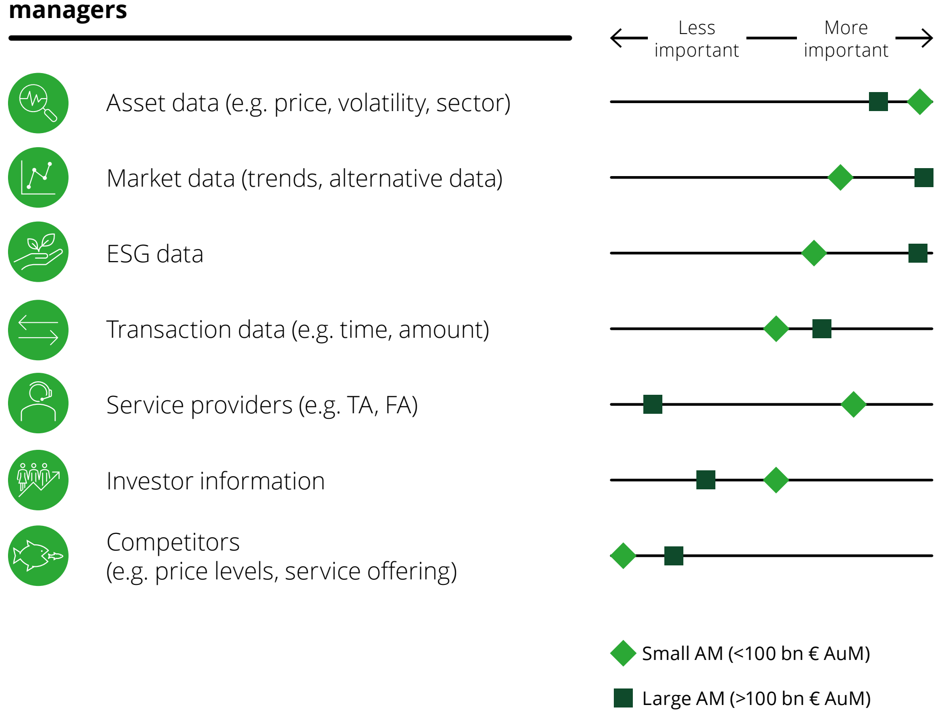
What is the most important type of data?



...however, small and large companies seem to assign different importance to the types of data.

Different types of data can have different levels of importance depending on the situation a company might find itself in. Asset managers with high AuM seem to assign higher importance to market and ESG data, while smaller-AuM managers view asset and competitor data as the most important type.

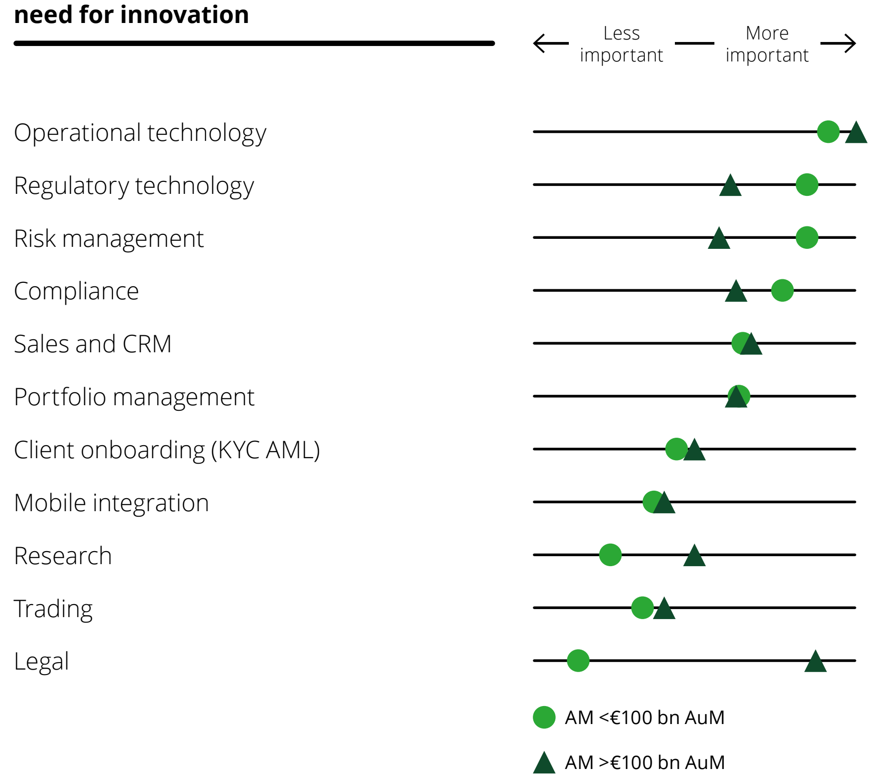
Most important types of data for small vs large managers



Needs for innovation and challenges in leveraging data to its full potential

While operational technology innovation is important to both smaller and larger asset managers, **the gap widens for regulatory technology, risk management, and compliance,** where smaller players reporting higher needs for innovation.

Business areas with greatest perceived need for innovation



Operational technology seems to be the area in which asset managers have the greatest need for innovation

Naturally, the main data use case for asset managers is to generate alpha...

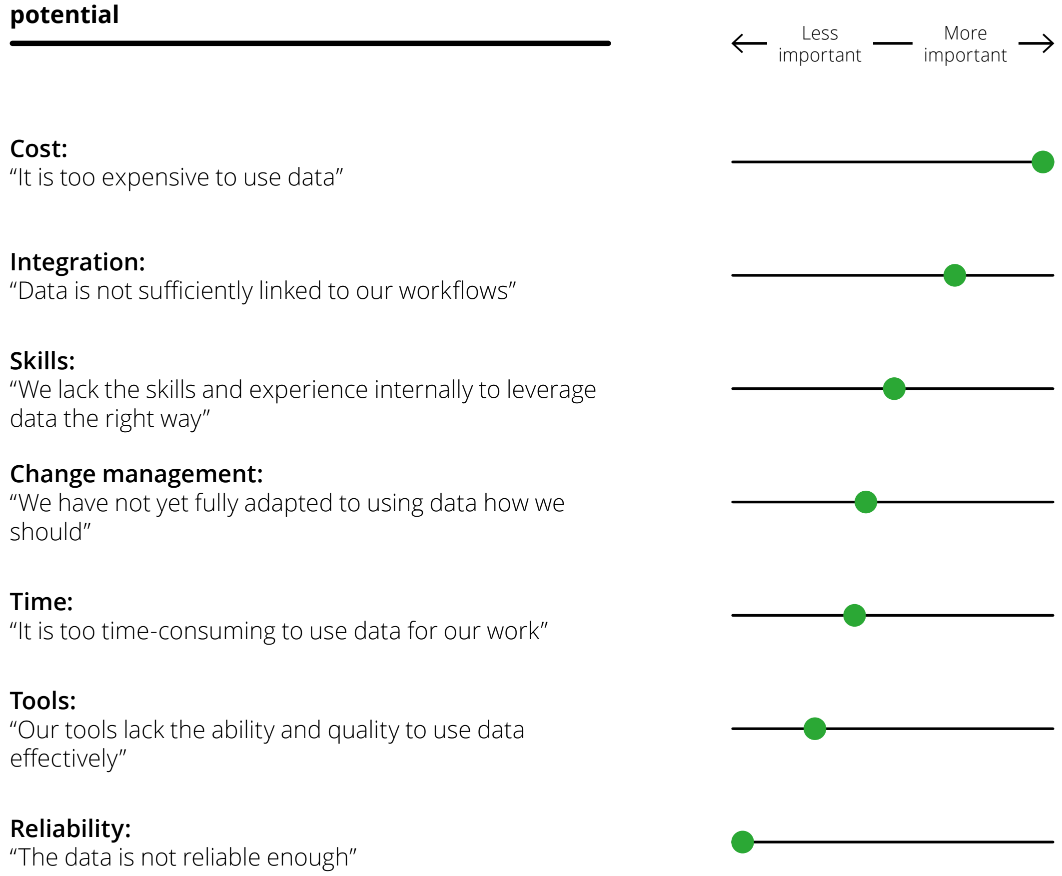
Main use cases in using and leveraging data

- Increased investment performance/alpha
- Improved product and content disruption
- Enhanced operational efficiency
- Reduced costs
- Higher client satisfaction / more personalized service
- Using data as a direct revenue source

...however, challenges remain, with the main ones being the cost of using data and integrating it with existing processes.

In 2019, data availability and reliability were quoted as the main challenges, whilst in 2021, reliability was reported to be the least challenging item. However, respondents claimed that using data remains expensive and not fully linked to their current ways of working.

Reported challenges in using data to its full potential



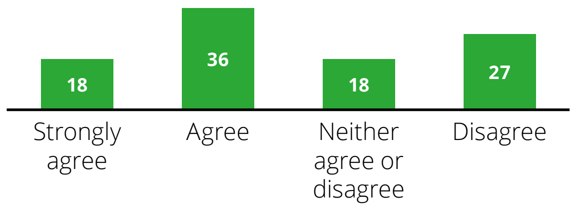
Data sufficiency

It is now widely acknowledged that data initiatives are transforming many industries, with companies recognizing data's value to drive services as well as to improve internal ways of working.
For asset managers, data holds particular importance as they leverage such information for efficiency gains and to assist with better decision-making.
Today, although a majority of asset managers consider data in their organizations as sufficient (i.e. timely, available, accurate, etc.) to support their business needs, only less than one third consider themselves to be using data as "innovators".

However, we expect asset managers to continue improving their data capabilities, in the search for enhanced operational and investment performance. Indeed, the survey results show a possible link between an asset manager's data sufficiency perception and their expectations for revenue growth in the short-term.

Data in organization is sufficient to support our business needs

(% of respondents)

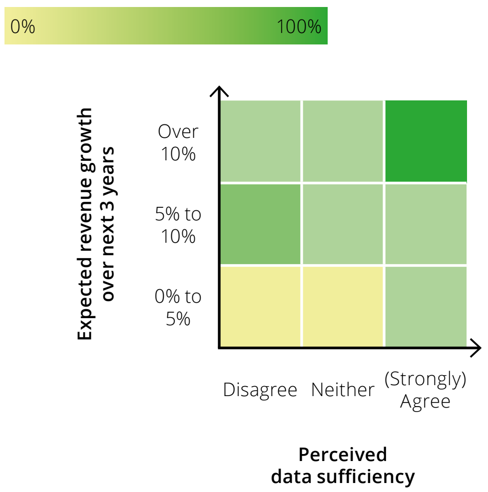


There seems to be a slight correlation between data sufficiency and projected revenue growth over the next three years...

Over half (54%) of asset managers believed that data in their organization is sufficient to support their business needs, and expect proportionally higher short-term revenue growth than those who don't.

Link between expected revenue growth and sufficient data

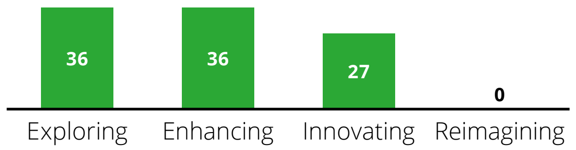
(% of respondents)



...but perceived data maturity does not seem to be linked to more ambitious revenue projections.

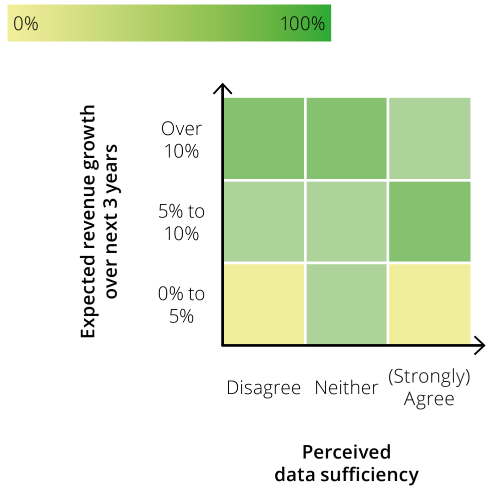
Perceived maturity in data and digital innovation

(% of respondents)



Link between expected revenue growth and data maturity

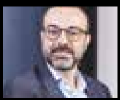
(% of respondents)



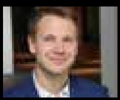
Contacts

Luxembourg

Vincent Gouverneur
Partner - EMEA Investment Management Leader
+352 451 452 451
vgouverneur@deloitte.lu



Simon Ramos
Partner - IM Advisory & Consulting
+352 451 452 702
siramos@deloitte.lu



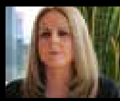
Dan Vrabel
Manager - Investment Management
+352 451 453 968
dvrabel@deloitte.lu

United Kingdom

Andrew McNeill
Partner - Financial
+44 20 7007 6151
amcneill@deloitte.co.uk

Ireland

David Dalton
Partner - Financial Services
+353 140 748 01
ddalton@deloitte.ie



Julie Farren
Director - Financial Services
+353 1 417 2614
jfarren@deloitte.ie

Deloitte.

Deloitte Luxembourg
20, Boulevard de Kockelscheuer
L-1821 Luxembourg,
Grand Duchy of Luxembourg
Tel.: +352 451 451

www.deloitte.lu