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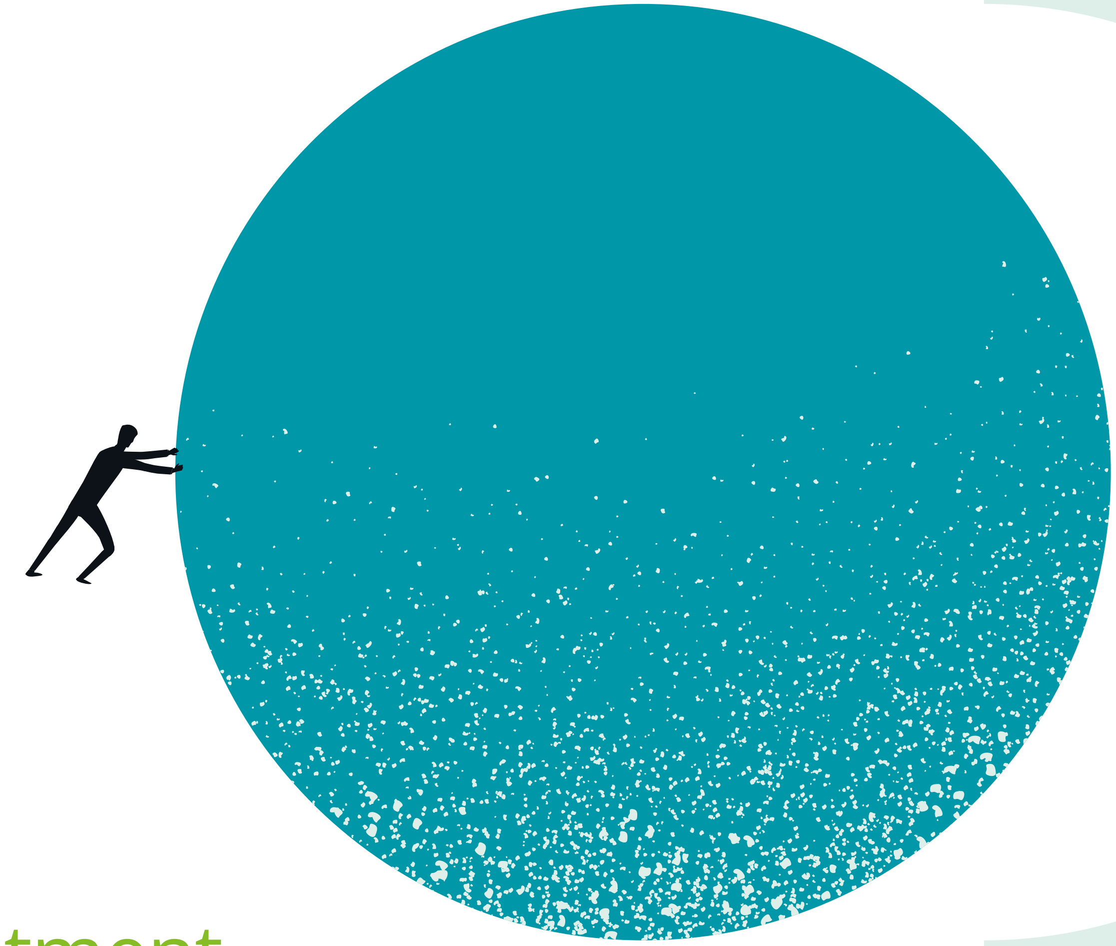
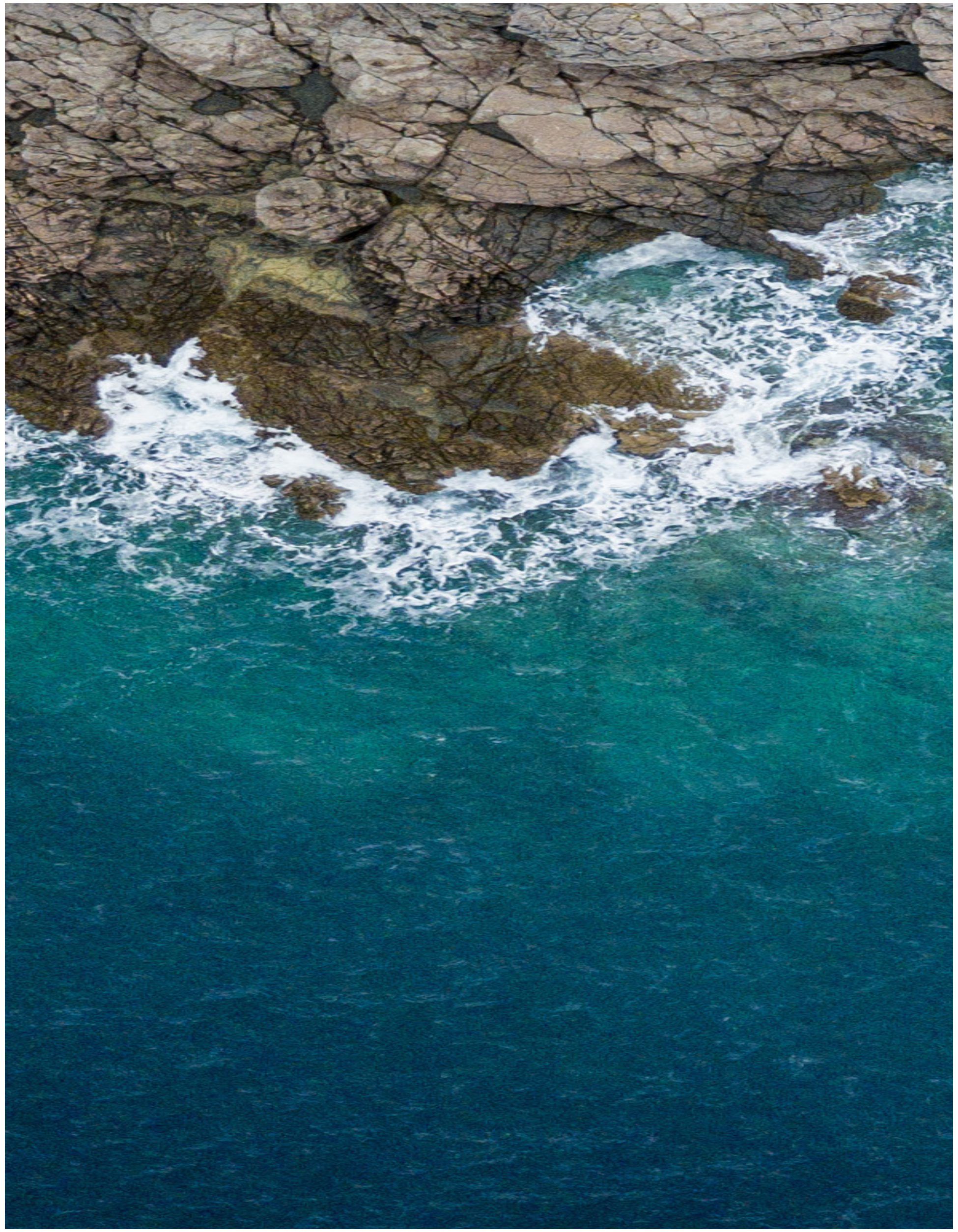


2023 Irish Investment Management Outlook

As firms look to plan and execute their 2023 strategies, the insights from our investment management outlook survey indicate that organisations that engrain a sense of purpose, support a strong culture, and communicate a clear vision, are the ones with the best chances of success. These characteristics enable both cultural and digital transformations to be implemented with minimum disruption and maximum impact on organisational effectiveness.

Unsurprisingly, the key themes emerging from our survey were investing for advantage, optimising the talent model, and enhancing performance.



Investing for advantage

Delivering alpha for investors in a consistent and efficient way is what all leading investment management firms strive to do. Reinvesting in the firm should support alpha generation, enhance the client experience, and improve operational efficiency.

Our survey highlights that those firms which intend to invest in artificial intelligence (AI) and data analytics expect larger increases in revenues that those who don't. Many of these firms are focusing on incorporating new datasets into their investment management process as well as streamlining front to back integration.

These initiatives can deliver information advantage through enabling better, faster investment decisions supported by deeper insights, tighter systems, and data integration.

Investing for client-centricity tends to fall into two main areas: investment products and client connection.

Direct investing, environmental, social, and governmental (ESG) aligned portfolios, and digital assets have emerged as notable developments in investment management products that augment customer centricity.

Digital transformation leads to operational efficiency which can improve organisational culture along the way. Our survey shows that respondents who are satisfied or very satisfied with their digital transformation are more than twice as likely to report improved corporate culture since the start of 2022.

In addition, firms that report being further along in their digital transformation journey report also report greater success in achieving cost reductions.

One note of caution in relation to the digital transformation journey is that the governance model and measures to support it had not necessarily kept pace with the level of change. There is therefore an expectation among respondents that the level of regulation in this space will increase.

As expected, cyber security remains a key issue for boards and management. However, security is by no means the only concern when it comes to data and digital process governance. Regulation in relation to AI ethics is already on the way in Europe, for example.

Optimising the talent model

The re-opening of offices and the return to the workplace is likely to present quite serious talent challenges for investment management firms in the coming year and beyond. The paradigm has changed since the mass shift to home and remote working forced on employers by public health measures during the pandemic.

There is a growing recognition among employers that remote and hybrid working can deliver effective results. Indeed, there were many reports of increased productivity during the early days of the pandemic although at least some of this improvement was probably as much a result of novelty value as anything else.

The days of presenteeism ruling the workplace may not be entirely behind us but they are definitely on the wane.

On the other side of the talent equation, many employees have grown accustomed to the new arrangements and are extremely reluctant to return to anything like a five day in-office working week. This is particularly the case in cities like Dublin and London where long commutes were a feature of working life in the industry pre-pandemic.

This can be a win-win situation for organisations which get it right. Our survey results reveal a direct linear relationship between workplace policy and positive organisational culture. As workplace policy becomes less flexible the percentage of respondents reporting a strengthening in culture has declined.

The challenge for investment management leaders is the need to balance employee expectations with the long-term ability to create a meaningful, cohesive, and durable organisation culture when many employees may not be present in the workplace.

While workplace polices influence employee satisfaction, it’s clear from our survey that other factors are also important. Our survey demonstrates that progress towards communicating and achieving a strong corporate purpose is correlated to efficiency, increased revenue opportunity, and reduced employee turnover.

One area that continues to define a company’s purpose is its ESG policies, and especially the diversity, equity and inclusion (DEI) sub-component.

A firm’s ability to quantify, measure and report on these areas is increasingly important for all its stakeholders and not just its employees. Our survey indicates that a growing number of firms are working towards quantifying DEI initiatives, while almost half are yet to begin or have made little progress.

Regulation is also having an impact on this area with Gender Pay Gap reporting now becoming a reality for larger firms in Ireland. More firms will be drawn into the net in the coming years.

Our survey reaffirms the correlation between making progress in EDI report and improvements in organisational culture.

For the second year running, our survey has highlighted the importance of a learning culture. A stronger emphasis on learning is correlated to positive workforce behaviours. There is a direct relationship between an increased emphasis on learning and an improvement in collaboration, wellbeing, and overall culture.

In this context, firms seeking to measure the return on investment from employee training should note that a focus on personal growth can contribute to employee retention while an emphasis on learning may help foster the attitudes and soft skills that often contribute to the success of transformational change initiatives that require commitment and collaboration across the organisation.

Performance

While the last few years have been difficult for the investment management industry, the expectation is that the next few years will present new challenges. Respondents to the survey cite inflationary pressure and the geopolitical landscape as negatively impacting firms. A prolonged economic downturn would put further pressure on margins. Should the uncertainty surrounding the macroeconomic environment and technology-related cost increases continue through 2021, the gap between the most successful investment managers and those trying to catch up could widen.

The global growth in AUM to $123 trillion at the end of 2021 has been experienced by managers in different ways. For example, actively managed equity funds in the United States experienced a net outflow of assets for the eighth consecutive year. However, our survey does indicate that active managers are investing in AI and data analytics in an effort to improve performance.

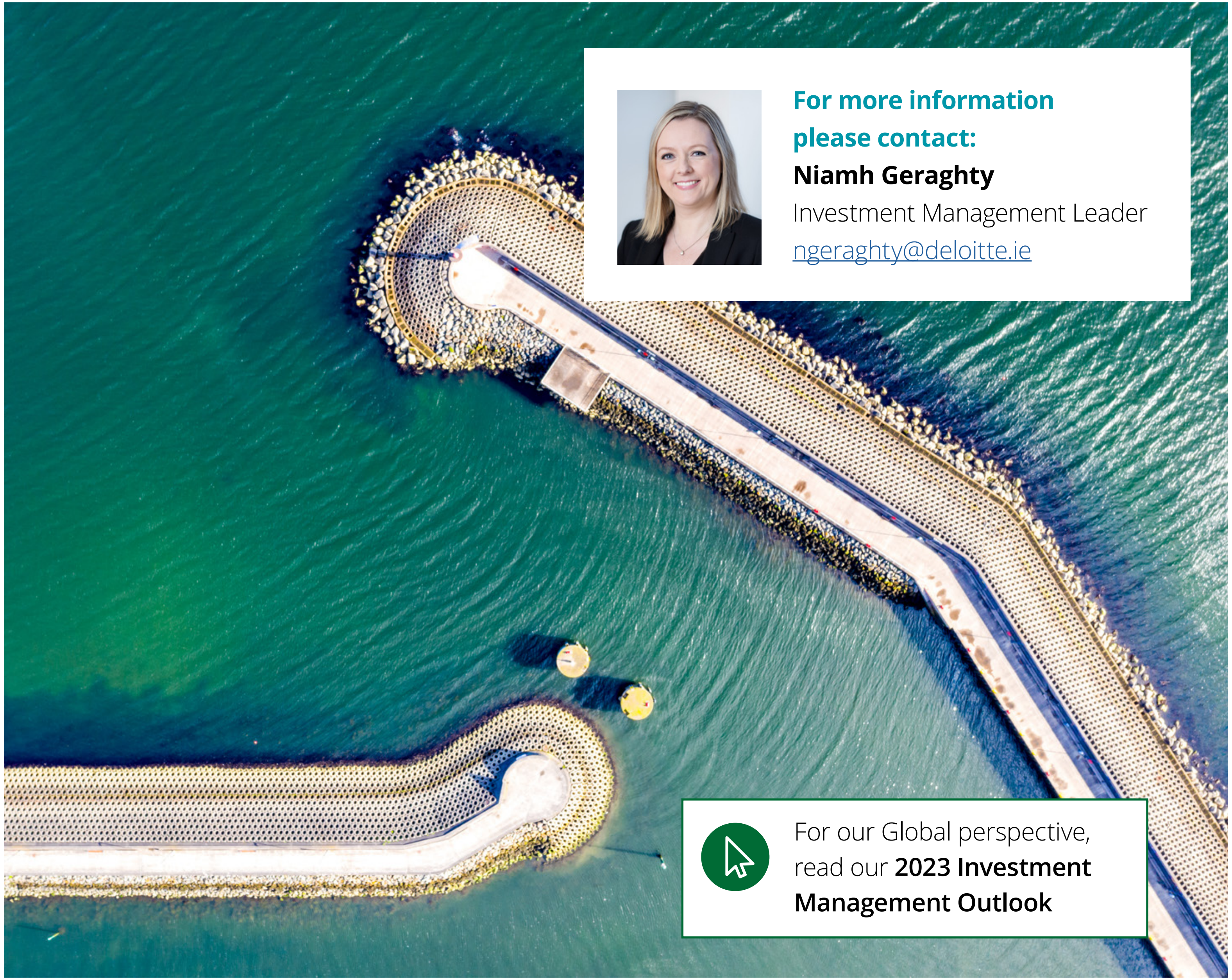
Hedge funds had strong AUM growth in 2021 when compared to mutual funds, ETFs or private capital, although mutual funds continue to attract a bigger share of the overall capital inflows. Interestingly, in the first quarter of 2022, hedge funds saw a net outflow of $27.9 billion while private capital saw an increase of $293 billion.

After a busy few years on the M&A front, our survey indicates a slowdown in activity for 2023 and as deals are put on the backburner, firms will focus on integrating previously closed acquisitions with a view to maximising synergies and transforming operations.

Conclusion

The results of our survey provide a reminder, if any were needed, that employees remain the most valuable asset of an investment management firm. Firms which adapt best to the new workplace paradigm will be the ones most likely to retain key employees and perform best in the years ahead. This will require more than just the implementation of hybrid working policies, however. Investments to support the development of a positive organisational culture will also be required in areas such as learning and development.

Ultimately, investment firms are judged on their performance and those firms which invest in digital transformation and new technologies like AI and data analytics will gain an information advantage over those which lag behind in this respect. Those investments are also likely to deliver additional benefits in the form of improved culture and better staff retention which, in turn, will place them in a better position to meet the challenges that lie ahead.



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For our Global perspective, read our **2023 Investment Management Outlook**

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