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## 2023 investment management outlook

The global investment management industry looks to drive success in a virtuous cycle

## Speakers



**Tony Gaughan**

Vice Chair, Partner, EMEA and UK Leader



**Jessica Hodges**

Partner, UK ESG Leader



**Andy McNeill**

Partner, Consulting



**Dimitri Tsopanakos**

Partner, UK Risk Advisory Leader

## Agenda

- Introduction
- Market update
- Firm Culture and Sustainability (ESG)
- Digital transformation
- Regulation and risk
- Close

# Market update

## Tony Gaughan

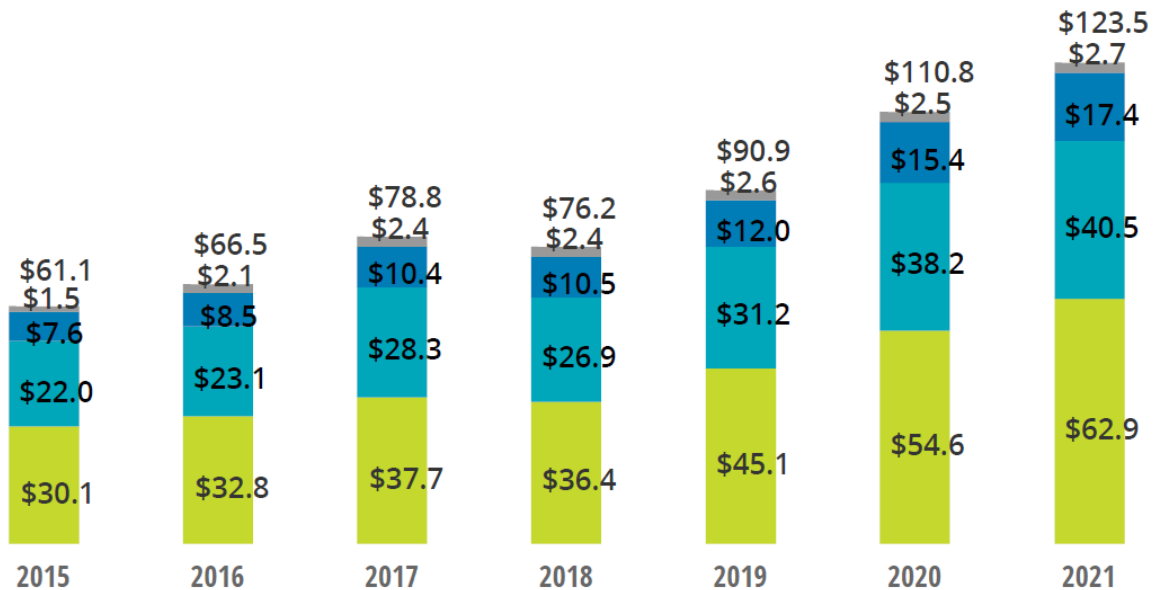
# Global professionally managed assets under management grew for a third consecutive year

Macroeconomic and geopolitical uncertainty expected to present continued challenges for investment managers in 2023

## Industry assets hit all-time highs in 2021

■ North America, CAGR 13.1% ■ Europe, CAGR 10.8% ■ Asia Pacific, CAGR 14.7% ■ RoW, CAGR 10.1%

Global professionally managed AUM (US\$T)



Sources: Investments and Pensions Europe; Investment Company Institute; Deloitte Center for Financial Services analysis.

## Strong industry dynamics through 2021/2022

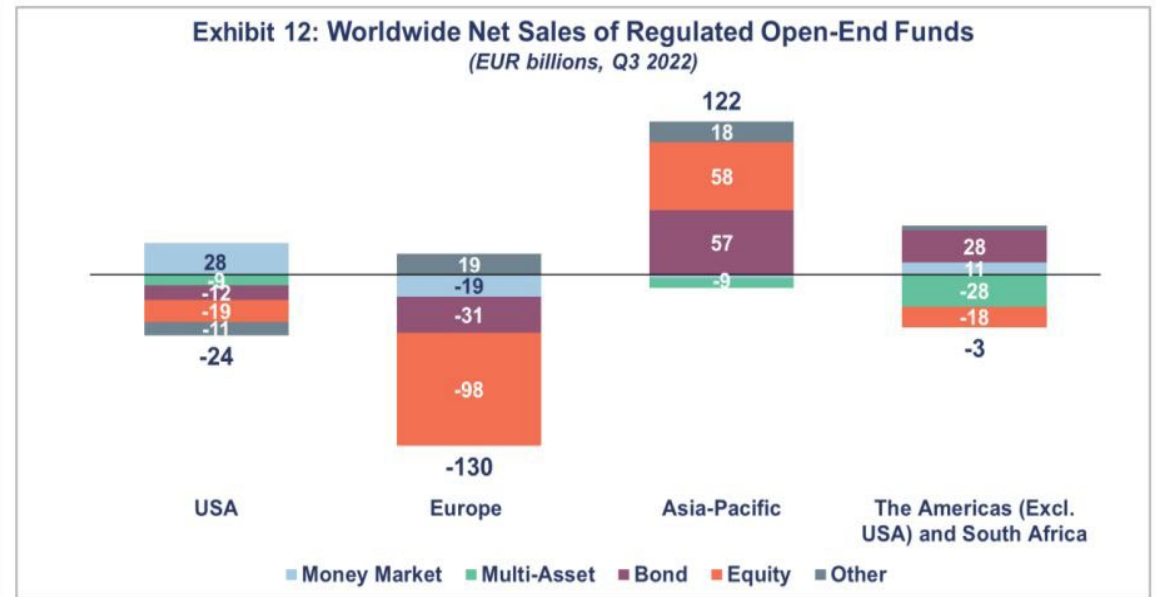
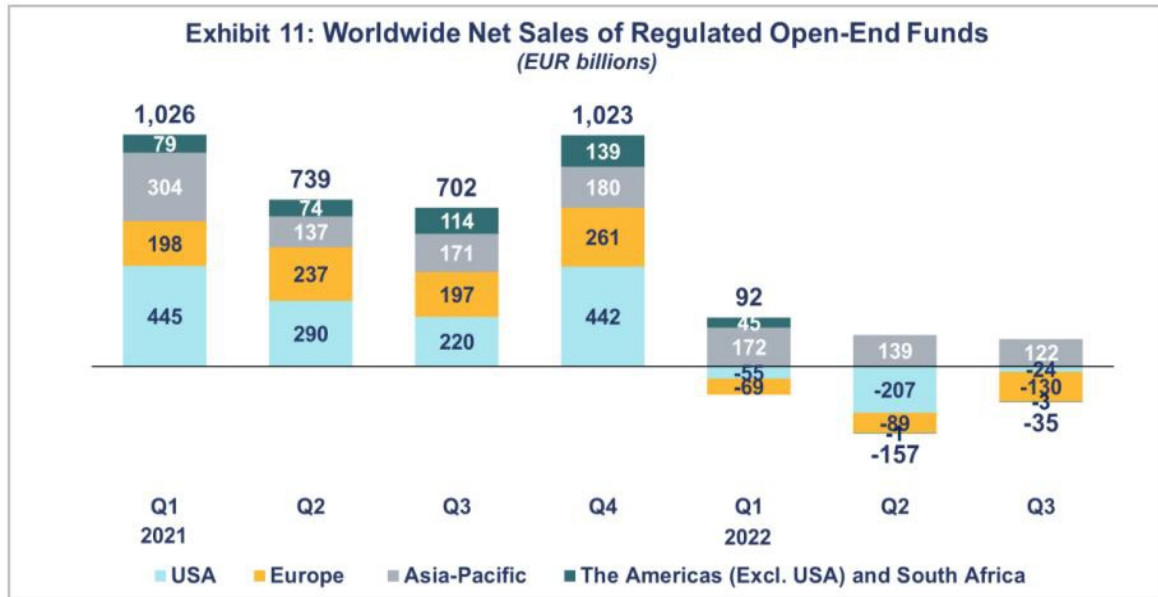
- ❑ Industry assets and revenues saw all time highs in 2021.<sup>1</sup>
- ❑ Growth was driven primarily from strong capital markets.<sup>1</sup>
- ❑ The rise of the individual investor and the continued demand for illiquid and alternative strategies by asset owners globally shaped product development and M&A.<sup>1</sup>
- ❑ Firms continued to invest in data, technology and CX to drive more efficient operating models and better client engagement.<sup>1</sup>
- ❑ However, in Deloitte's global investment management survey, 66% and 59% of respondents are concerned that inflation and geopolitics, respectively, will negatively impact their firms.<sup>2</sup>

Sources: <sup>1</sup>Casey Quirk, a Deloitte business; <sup>2</sup>Deloitte Center for Financial Services 2023 Investment Management Outlook Survey.

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Macroeconomic and geopolitical uncertainty expected to present continued challenges for investment managers in 2023

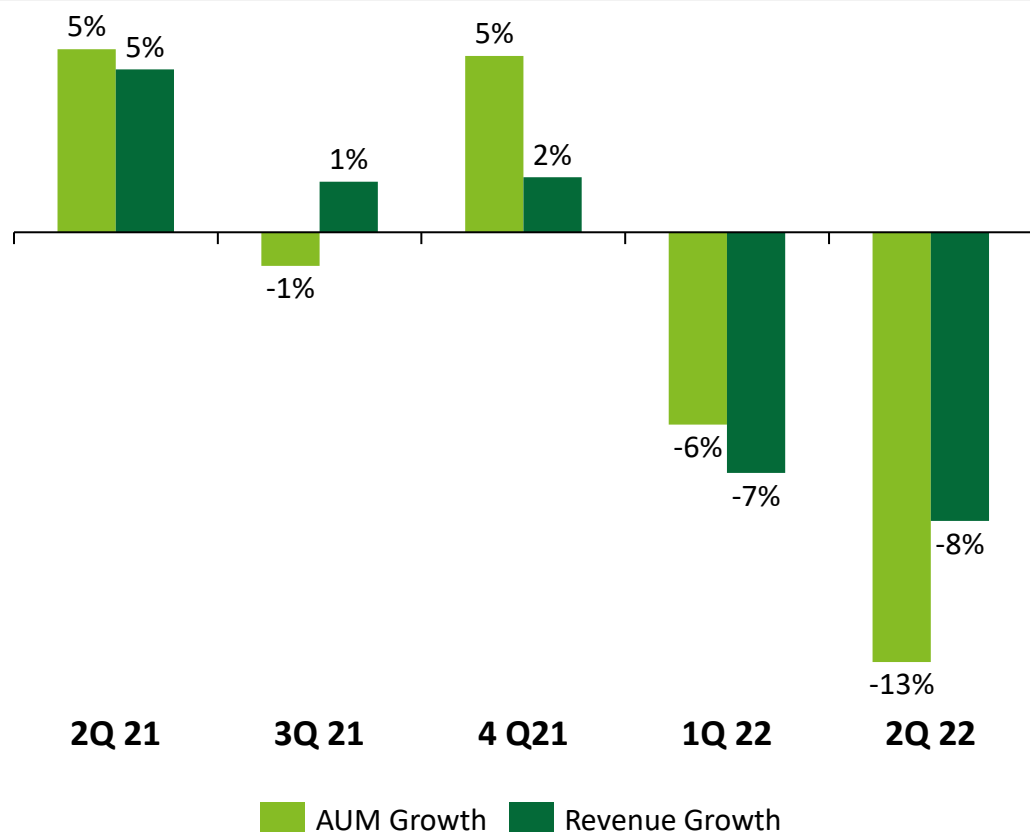
## 2021/2022 industry net flows



# This year has proved a different environment for the industry and most firms' economics

Most firms experienced a decrease to their revenue base due to capital markets and experienced relatively flat organic growth

## AUM & Revenue Median Growth, 2Q21-2Q22



## Varying performance amid macroeconomic uncertainty

- ❑ The traditional asset managers saw a median 13% AUM and 8% revenue decline from Q1 2022, after seeing all-time highs just two quarters prior.
- ❑ Though AUM declines predominantly came from the market downturn, asset flows in the quarter for most firms were either flat or slightly negative.
- ❑ M&A momentum has slowed as buyers remain cautious, but lower valuation could open new deal opportunities.
- ❑ Firms are responding to these industry headwinds by reducing expenses, including compensation, which was down 6% versus Q2 of 2021.

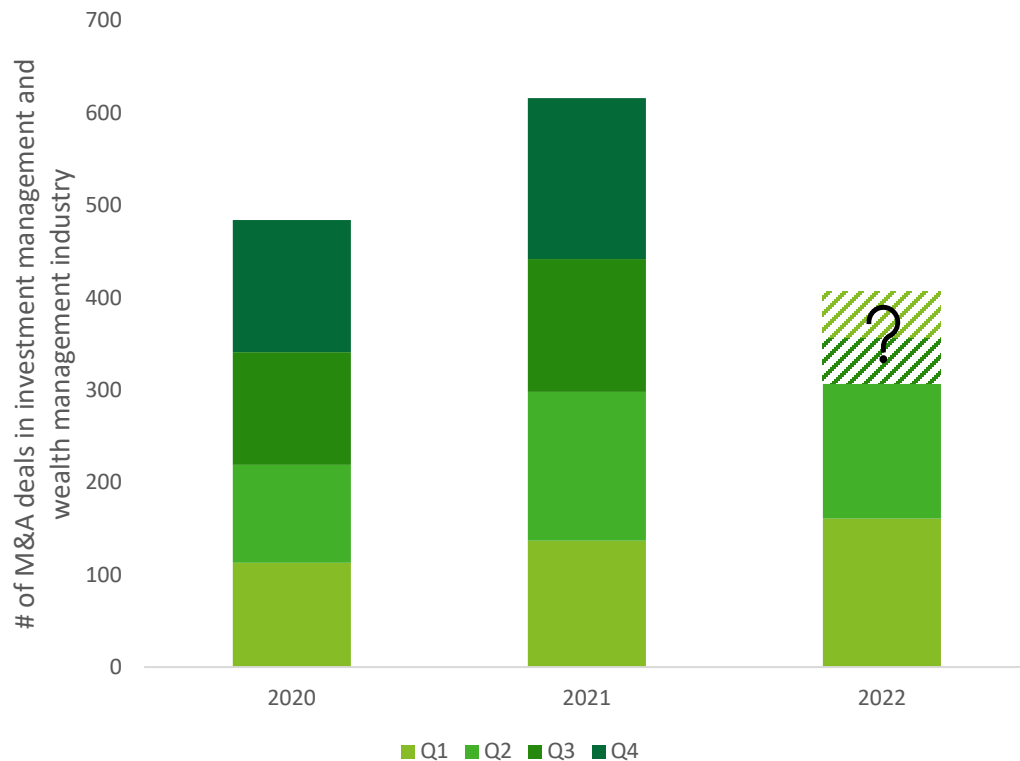
Source: Casey Quirk, a Deloitte business.

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# Global deal activity in the investment management and wealth management industry is expected to slow over the course of 2022

As deal activity declines, post-merger integration activity will likely be the emerging M&A theme in 2023

**The upward trend in global deal activity may reverse course over the next year**



**Capturing and maximising deal value will likely be the emerging M&A theme as deal activity showed signs of a slowdown**

- ❑ Deal volume rose 18% year over year in Q1 2022; signs of a pullback developed in Q2 2022 as activity fell about 9%.<sup>1,2</sup>
- ❑ Only 49% of survey respondents indicated that their firm is likely to increase M&A in 2023, compared with 76% last year.<sup>3,4</sup>
- ❑ In 2023, firms will likely focus on maximising synergies by addressing post-merger integration and transformation issues.<sup>3</sup>

Sources: <sup>1</sup>Deloitte Center for Financial Services analysis; <sup>2</sup>Refinitiv Eikon; <sup>3</sup>Deloitte Center for Financial Services 2023 Investment Management Outlook Survey; <sup>4</sup>Deloitte Center for Financial Services 2022 Global Outlook Survey.

Source: Deloitte Center for Financial Services analysis; Refinitiv Eikon.

# Firm Culture and Sustainability (ESG)

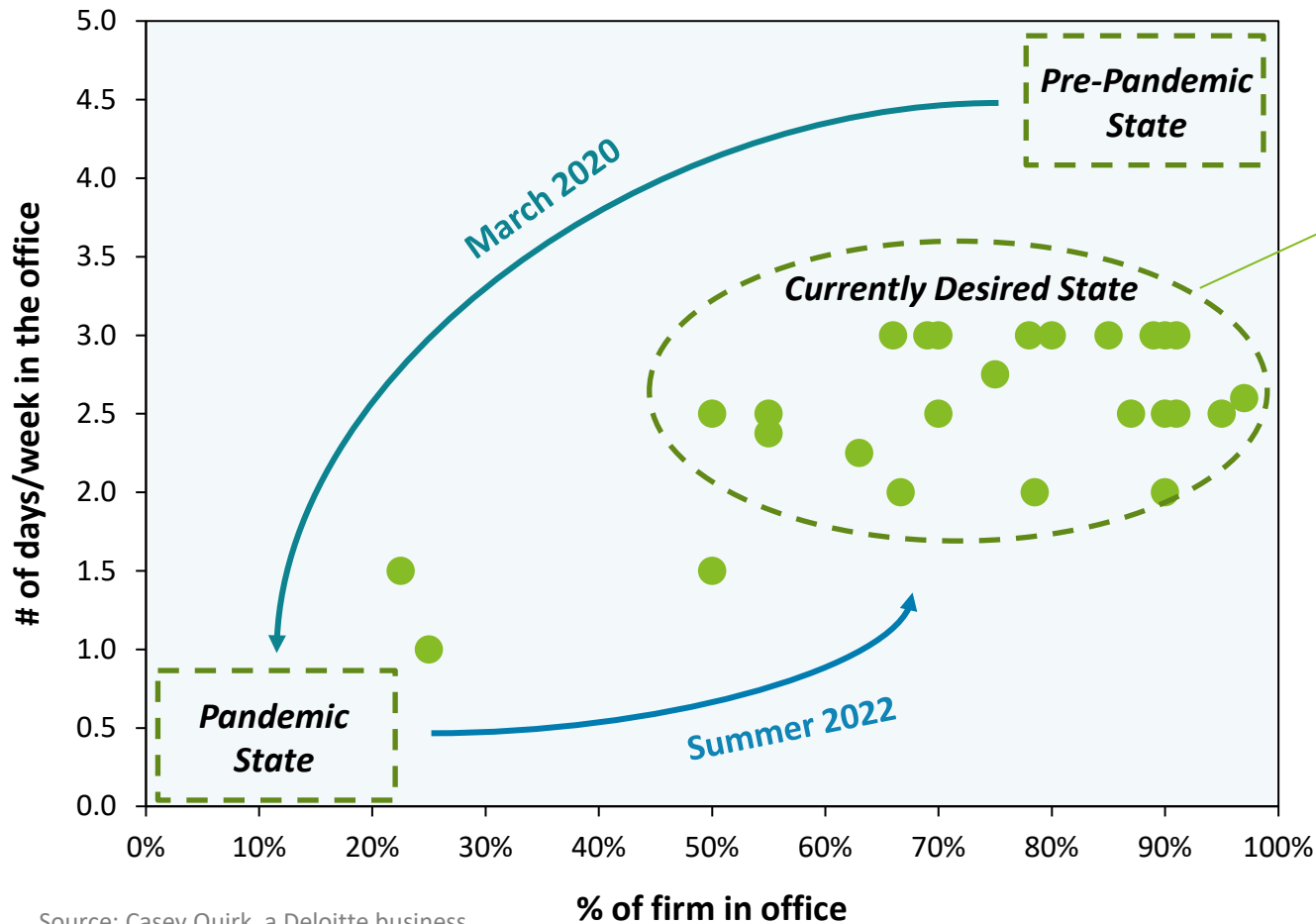
Jessica Hodges



# The emerging hybrid work model is coalescing towards a 3 day/week in-office approach

Leading workplace policies balance employee expectations and the long-term ability to create a meaningful, cohesive, and durable corporate culture

**Asset Manager In-Office Presence**  
Summer 2022



**Emerging commonalities**

- “Where we work” now a **CEO priority**
- **“3-2” model**, typically Tuesday-Thursday
- Migrating from **“encouraged”** to **“mandated”** philosophy
- In-office experience suffers without **majority of workforce** together

**Why is this happening now?**

- Pandemic concern waning
- Back-to-office gaining momentum culturally
- Recession / market downturn concerns
- Clients asking

Source: Casey Quirk, a Deloitte business.

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Workplace policies influence employee satisfaction but they are not alone in doing so  
Tangible actions in line with corporate purpose can lead to greater efficiencies and reduced employee turnover

### Connecting talent with the organization



#### Instituting purpose

ESG policies and more specifically DEI actions continue as the standard bearers for corporate purpose.



#### Hiring and upskilling talent

Proactive partnering with training organisations may better position firms for longer-term success.



#### Foster learning

Employee training has benefits that far outweigh the specific knowledge learned through the courses themselves.



#### Strengthening culture

Strong cultures empower decision making throughout the organisation.



#### Communication for alignment

Leadership through strong communication across departments can improve multiple aspects of corporate culture.

# ESG integration

Expected 2023 trends and challenges as investment managers continue to integrate ESG into their investment approaches and business models

Primary Trends

Portfolio Decarbonisation



Growing regulatory scrutiny



Moving beyond climate change



Stewardship & active engagement



ESG reporting standardisation



Associated Challenges

- Defining transition finance metrics and targets
- Challenges of unique asset classes
- Divest or Engage?

- Increasing demand to define house view and publish progress
- SDR and SFDR
- Greenwashing risk

- Bio-diversity and nature
- Nature capital data – even more challenging than climate data

- Time, finance and resource constraints
- Data
- Divest or Engage

- Data
- Time, finance and resource
- Consistency of reporting/ streamlining

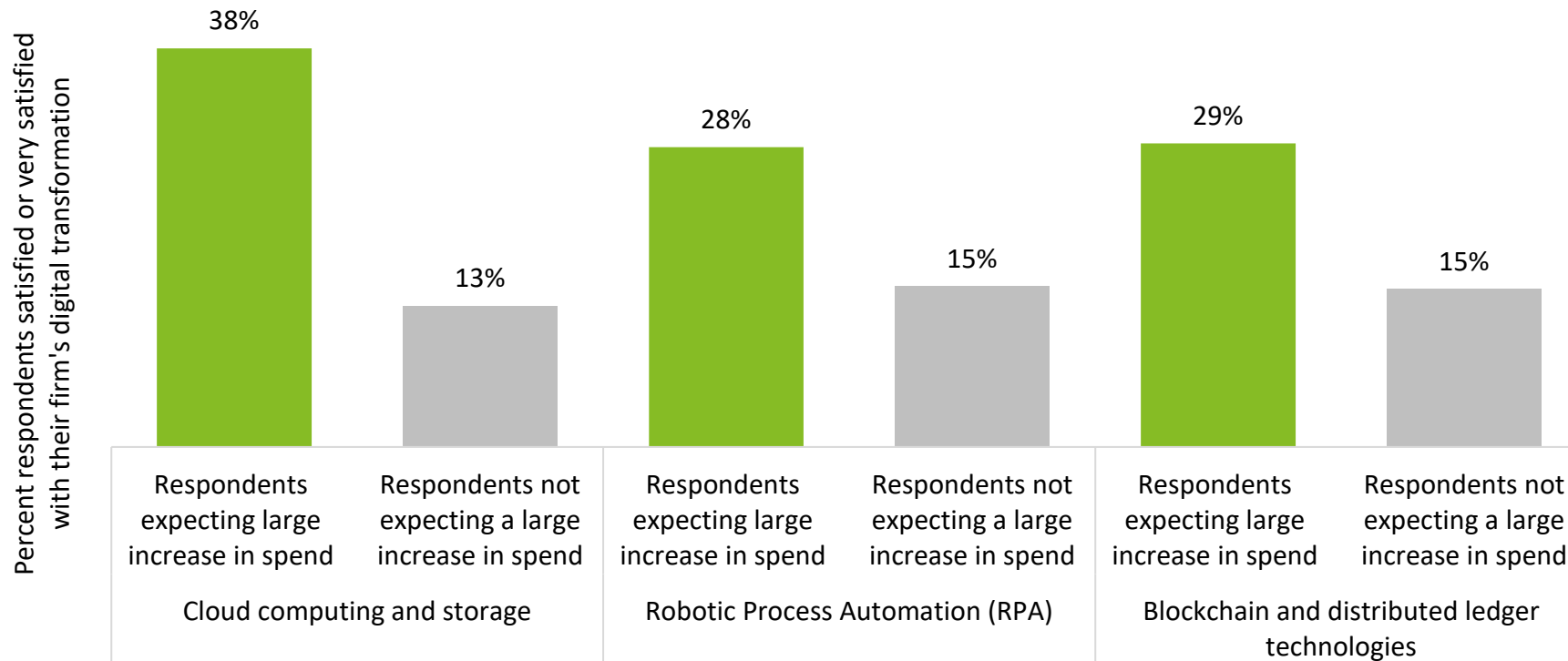
# Digital transformation

## Andy McNeill

# Most investment managers expect an increase in spending on efficiency-enhancing technologies

Efficiency enhancement may lead to greater satisfaction with digital transformation, which in turn is linked to strengthening organisational cultures, reinforcing the virtuous cycle

**Increased spending on efficiency-enhancing technologies may be positively correlated to satisfaction with digital transformation**



Respondents from firms that are satisfied or very satisfied with their digital transformation process are

**2.3x**

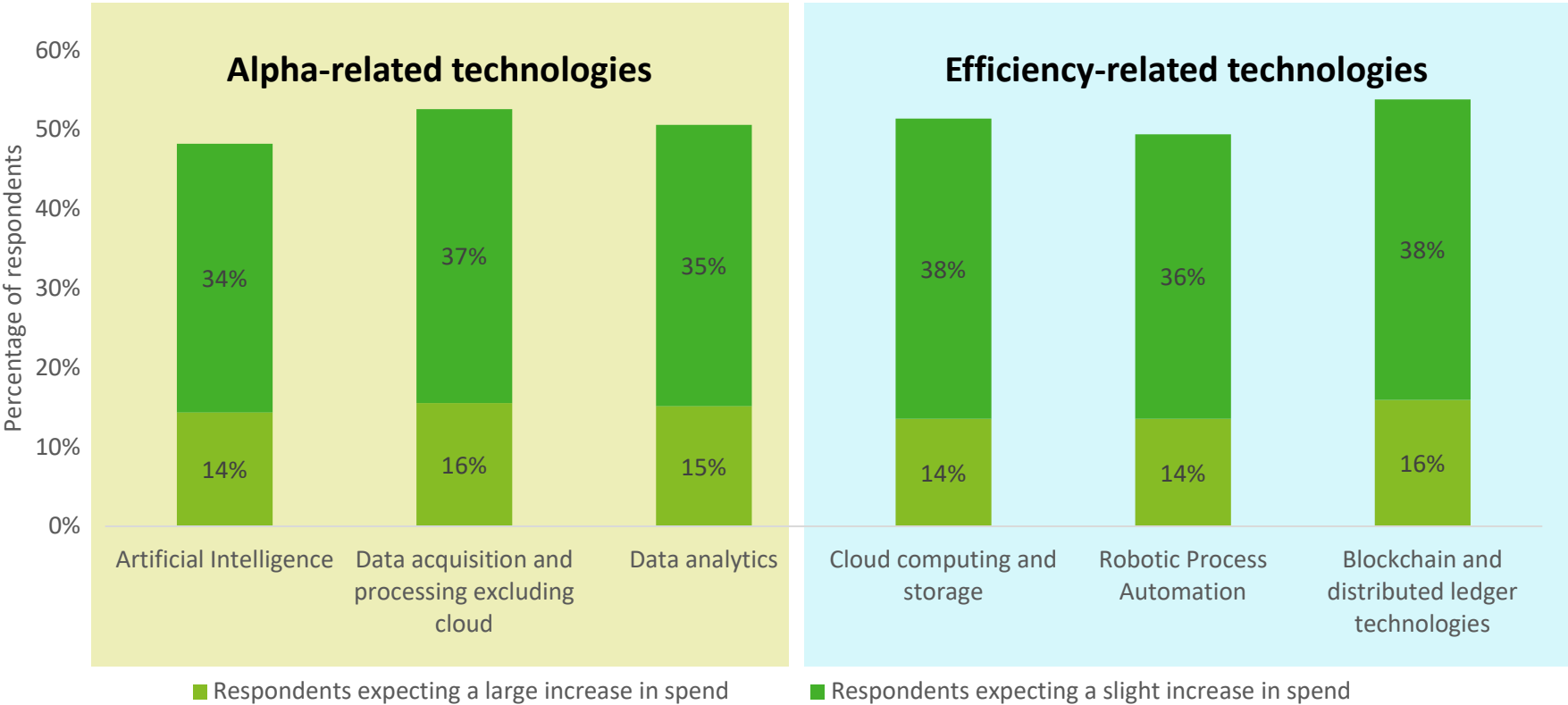
more likely to be in firms that reported a much stronger culture since the beginning of 2022

Source: Deloitte Center for Financial Services 2023 Investment Management Outlook Survey.

# Globally, firms are increasing spending on emerging alpha-enhancing technologies at a similar rate to efficiency-related technologies

Even in the face of economic uncertainty, many firms plan to increase investments in alpha and efficiency-related technologies

Respondents expecting an increase in spend for each of the following technologies



Source: Deloitte Center for Financial Services 2023 Investment Management Outlook Survey.

# Regulation and risk

## Dimitri Tsopanacos

# Regulatory compliance is shifting from local to global with organisation specific elements

Regulators have been coordinating efforts more than ever, while, at the same time, asking organisations to tailor their controls and reporting based on local market regulatory reporting requirements

## A challenge which can become an opportunity for a more robust business:

The demand for increased compliance, more responsible investing, higher transparency with investors and more diverse and empowered workforce, provides a great opportunity for organisations to shine.



### Local Impact

- ✓ Consumer Duty
- ✓ IFPR Rules (ICARA for example)
- ✓ Real Assets
- ✓ FCA Conduct Revamp



### Global Impact

- ✓ ESG / SRI portfolios
- ✓ Thematic Focus
- ✓ Regulatory Divergence (PRIIPS)
- ✓ Digital Assets



### Organisation Specific

- ✓ Regulatory Technology
- ✓ Customised reporting
- ✓ Operating Models & Resilience
- ✓ Enhanced segmentation

Source: UK Centre of Regulatory Strategy

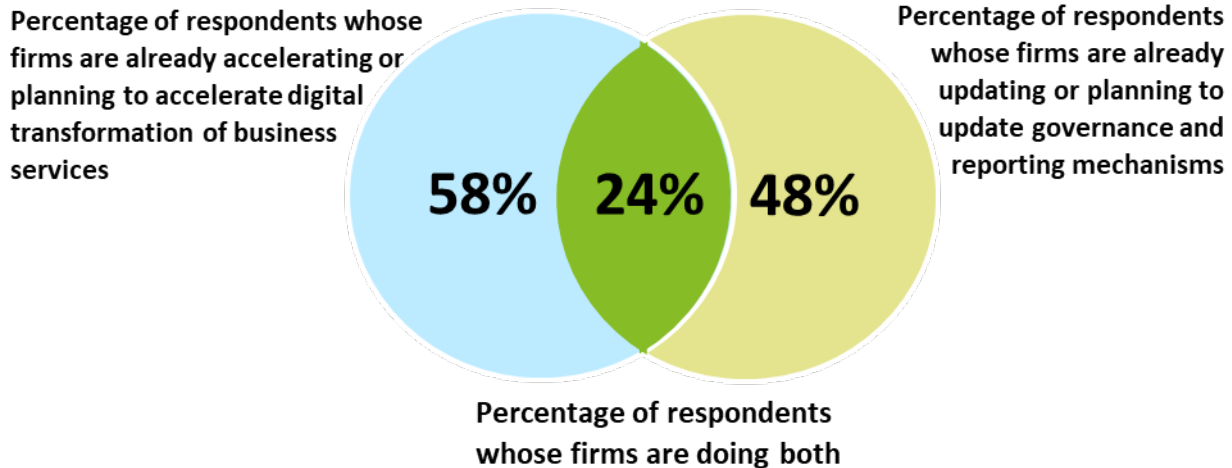


# Governance and reporting mechanisms are still behind the pace of digital transformation at many firms

In EMEA, new proposed regulations may provide a catalyst for firms to reexamine their governance priorities

Less than 30% of firms are transforming responsibly, albeit more firms than last year

FCA and SEC have proposed both new rules and changes to existing ones that impact public and private funds



Source: Deloitte Center for Financial Services 2023 Investment Management Outlook survey

## Proposed rules include:

- New reporting requirements for private funds
- New compliance review documentation requirements for ESG
- Rules to adopt written cybersecurity protocols
- Recordkeeping rules for fund domicile
- Disclosures related to the ESG strategy being utilised by fund managers

**3x**

EMEA respondents undertaking digital transformation responsibly tripled from last year



Investment management firms' governance standards need to catch up to FCA and SEC issued guidance

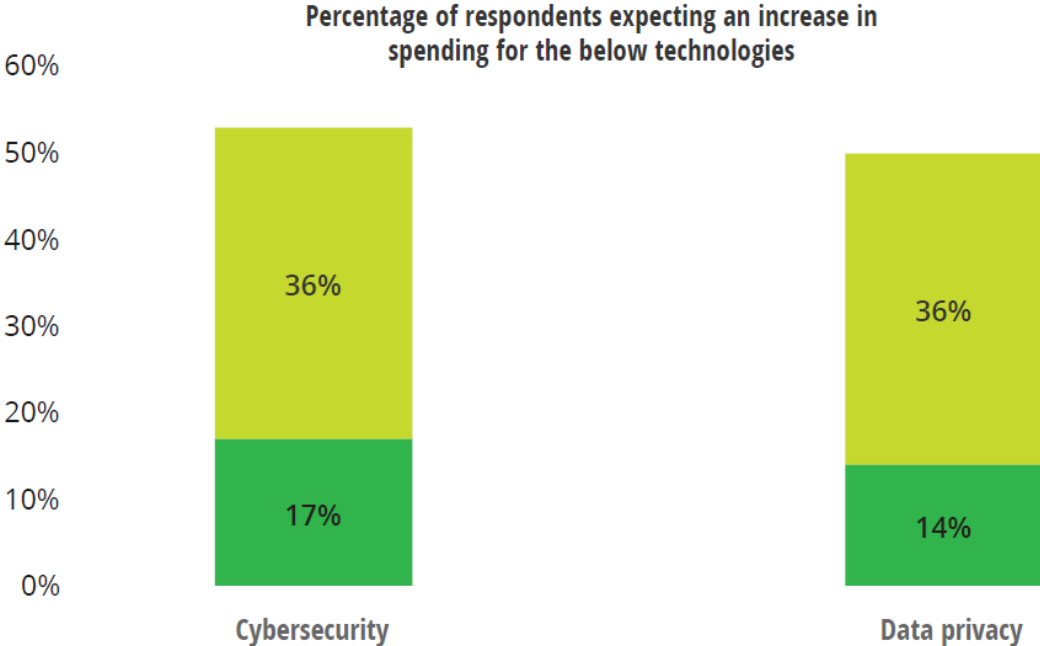
Source: FCA, SEC, UK Centre of Regulatory Strategy.

# Focus on Cyber: Cyber risk continues to be one of the most pressing governance concerns with large increases in spend expected in 2023

New developments emerge in the cybersecurity battle as investment managers seek to mitigate risks

Many survey respondents expect to increase spending on cybersecurity and data privacy in 2023

- Respondents expecting a large increase in spend
- Respondents expecting a slight increase in spend



New approaches have emerged to enhance security within the perimeter of the protected space

- Cloud Cyber resilience programmes are increasingly becoming a priority for the majority of UK and European based investment managers.
- In the US and partly in Europe, some investment management firms are deploying distributed ledger technologies to enhance cybersecurity.
- The ability to encrypt and back-up data at the individual record level using blockchain may commercialise in 2023.

Source: Deloitte Center for Financial Services 2023 Investment Management Outlook Survey. Copyright © 2023 Deloitte Development LLC. All rights reserved.

# The Deloitte Academy

## Upcoming events

### [In-person and Webinar] Financial Markets Regulatory Outlook 2023

Thursday, 19 January 2022 – 08.30-10.00

A panel of experts, including **Anna Dunn**, EMEA CFO at JP Morgan, and **Sacha Sadan**, Director of Environment Social and Governance at the FCA, will discuss and take your questions on the major strategic regulatory challenges for financial services firms across UK and EU in 2023 including: climate-related financial risk management, digital assets and payments, prudential capital frameworks, operational resilience, financial crime and much more.

[Register](#)

### [In-person] In conversation with Andrew Griffith MP, Economic Secretary to the Treasury

Tuesday, 31 January 2023 – 08.30-10.00

**Richard Hammell**, Deloitte Managing Partner for Financial Services, will be joined by **Andrew Griffith MP**, Economic Secretary to the Treasury and City Minister, to discuss the key current issues for the Financial Services sector in UK.

[Register](#)

### [Webinar] Financial Services Regulatory Outlook 2023: Areas of focus in Investment Management

Thursday, 2 February 2023 – 08.30-10.00

We will discuss how major regulatory trends will affect Investment Management firms across EMEA in 2023, and how firms can anticipate and respond to them effectively.

[Register](#)

### [Webinar] 2023 Insurance Regulatory Outlook

Thursday, 9 February 2023 – 08.30-10.00

We will discuss how these major regulatory trends will affect life and non-life insurers across EMEA in 2023, and how they can anticipate and respond to them effectively.

[Register](#)



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