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Future of Asset Management Study

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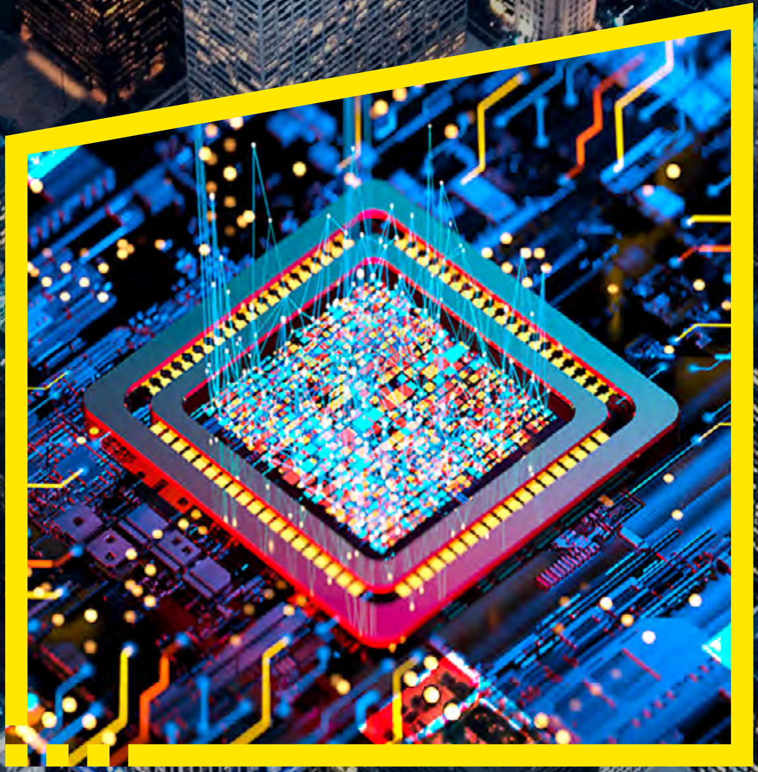

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Welcome

from EY Wealth and Asset Management leaders

Asset management has reached a critical moment in its evolution. The past few years have challenged asset managers like few others. The industry's response has brought rapid changes, and innovation is booming. Now, however, firms face a profoundly altered outlook of uncertainty and disruption, putting growth and profitability under ever-growing pressure.

The events of recent years have also forced some asset managers to question their purpose. The industry's first duty is to investors, but it also has a crucial role to play in safeguarding our planet and communities. Reconciling these imperatives will not be an easy, straightforward task.

This study updates the EY 2021 Reframing Asset Management study. It draws on a wide range of EY experience, setting out why we believe strategic transformation is crucial to a firm's ability to create sustainable value for investors, staff, themselves and other stakeholders in the 2020s.

It examines the drivers of change and disruption for asset management, the financial pressures facing firms, specific strategic initiatives they can take in response, and practical approaches to implementation. Finally, it contemplates some radically different futures that asset managers could face by the end of the decade.

We believe asset managers have an opportunity to reframe their future, by transforming for strategic resilience. We look forward to helping our clients and contributing to that process.

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Executive summary

Asset managers today face a profoundly challenging outlook. The world is at its most fluid, fragmented and unpredictable setting in decades. Economic assumptions have been turned upside down, slowing growth and pushing up interest rates. The disruptive effects of technology are accelerating. Changes in demographics and client expectations, geopolitics and the climate are having a more direct impact than would have seemed possible a few years ago. In short, the pace and unpredictability of change has never been greater.

This challenging environment, together with the prospect of increasing competition and more complex demands from investors and other stakeholders, is putting acute pressure on asset growth and profitability. The latest EY modeling suggests that in our base scenario, the industry faces a reduction of three to five percentage points in aggregate operating margins over the next five years. To sustain margins at the 2022 level, the industry will need to trim costs by 5% to 7% between 2023 and 2027. In our pessimistic scenario, the decline in operating margins could be as steep as 13 to 15 percentage points, with costs needing to be reduced by 17% to 19% over 2023-2027 to maintain operating margins at 2022 level.

This pressure makes strategic transformation a necessity for firms that want to succeed throughout this decade and beyond. Asset managers must take ambitious steps – now – to increase their strategic resilience. That means generating sustainable, profitable growth through greater focus and efficiency. We group the most powerful initiatives into six continuously evolving categories:

- **Reorientate around the client –** differentiating through closer engagement and more optimized solutions, such as increasing retail access to private markets
- **Accelerate digitalization –** using technology to transform experiences, for example via further developments in hybrid models that harness virtual reality
- **Reimagine investment propositions –** managing assets in new and better ways, perhaps by harnessing the power of artificial intelligence (AI) or developing new digital asset classes
- **Maximize areas of growth –** optimizing exposure to in-demand areas like private assets, sustainability or high-growth markets such as Southeast Asia or the Middle East
- **Transform business models –** financing growth initiatives through productivity gains, making optimal use of technology, data and people
- **Leverage external opportunities –** using targeted M&A, increasing collaboration with peers and partners, and developing the modularity to participate in future ecosystems

As they move through the process of strategic renewal and transformation, asset managers will experience a disproportionate impact from intersecting themes, such as the need for faster innovation and meaningful collaboration, the demand for democratization to enhance financial inclusion and the importance of interoperability between data sources and technology platforms.

To succeed, asset managers must challenge themselves in a range of areas. Truly differentiated strategies, strong culture and leadership, new approaches to talent management, and effective alignment between data, technology and growth will all be essential – backed up by a relentless focus on execution.

Robust implementation, driven by a clear top-down view and a focus on creating client value will be key. Firms should also prepare for the wide range of radically different industry scenarios that could materialize by 2030. That might include the reinvention, or even the disappearance, of some features of today's investment landscape, such as traditional fund structures.

Throughout it all, firms must maintain their focus on the investors of today and tomorrow. That will call for a more sophisticated approach to sustainability — protecting the planet and society while also fulfilling the industry's fiduciary duty. Competition will intensify, but doing the right thing will require firms to work together more often than in the past.

Asset management will always be needed, but today's methods, structures and organizations may not be. Firms have an opportunity to reframe their future and elevate their purpose by transforming themselves for strategic resilience. They should own it and lead from the front.

Scene setting:
asset managers face a disruptive decade

The first few exceptionally unstable years of the 2020s have brought huge changes to the asset management landscape, adding to the profitability pressures that individual firms have been experiencing for years. Instability looks increasingly likely to be a hallmark of the decade, with corresponding effects on markets and investment. Adaptation and agility will be increasingly critical. Asset managers and investors face new threats and, for those that seize them, new opportunities.

The world is becoming more fragmented and unpredictable

As the 2020s began, the asset management industry – although growing strongly – was already under increasing pressure to maintain its profitability. The COVID-19 pandemic accelerated many of the drivers reshaping the industry, such as digitalization, the need for efficiency and demand for greater sustainability and focus on customization. Next, the ebbing of the pandemic gave way to war, rivalry, energy crises and soaring prices. The geopolitical and macroeconomic shocks of 2022 saw the S&P 500 fall by 19.4%, the MSCI All Country World Index decline by 18% and inflation reach 8.9% in the US and exceed 10% in the UK, Germany and Italy.[1]

Asset managers now confront a geopolitical picture that is significantly different. In addition to the adverse impact of the Russia-Ukraine conflict on global markets, rivalry for influence between the US and China has led to a dynamic and changing global landscape. Other countries and blocs are scrambling to maintain close links with both superpowers, while a growing group of influential nonaligned powers like India, Saudi Arabia and Brazil are flexing their economic and diplomatic muscles. Decades of ever-greater globalization have given way to a more fluid multipolar era.

Trade and investment flows reflect these tectonic shifts. National resilience and strategic autonomy mean that onshoring remains in vogue, but while some supply chains are getting shorter, others are becoming more complex. Companies linked to China worry about possible US sanctions – and vice versa – creating huge operational headaches for multinational organizations.

When the world changes, so do markets. Interest rates may soon be peaking, but quantitative easing has been reversed and there is no prospect of a return to the ultra-loose monetary policies of the 2010s. Although declining from its peak, inflation looks increasingly sticky in many developed markets, with underlying drivers of higher prices such as deglobalization and decarbonization well entrenched. At the same time, global growth prospects are weak. Global GDP growth is projected to fall from 3.5% in 2022 to 3.0% in 2023 and 2024,[2] although some markets are posting stronger expansion – like India, with growth projections of 6.1% in 2023 and 6.3% in 2024.[3]

From an investment point of view, the asset owners' market of the 2010s – a bull run fueled by cheap money and punctuated only briefly by periods of correction – is well and truly over. Unpredictable inflation, underwhelming growth and further monetary and fiscal surprises could trigger fresh bursts of disorganized pricing as investors reposition around new realities.

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1 Oxford Economics consumer price index data.
2 International Monetary Fund: World Economic Outlook Update – July 2023: Near-Term Resilience, Persistent Challenges.
3 International Monetary Fund World Economic Outlook Projections.

Drivers of disruption are accelerating

The shocks of recent years have altered the macroeconomic environment and have also catalyzed existing and emerging drivers of disruption. These will accelerate during the 2020s, with varying effects on key markets. Here, we group some of the most important into three categories.

Demographic destiny

Demographic changes will have far-reaching effects on population characteristics, infrastructure requirements and levels of wealth. For example:

- Fast-growing populations will gift demographic dividends to countries such as Indonesia, Nigeria and Vietnam, while aging populations in markets like Japan and Western Europe will put health care and pensions under growing strain.[4] Global population over 60 will climb from 1 billion in 2020 to 1.4 billion in 2030 and 2.1 billion in 2050, driving up health care costs by an estimated 60% to 70%.[5]

[4] World Population Ageing 2017, United Nations.
[5] EY Wealth and Asset Management MegaTrends, March 2023.

- Female financial empowerment will accelerate thanks to improvements in employment, education and family planning. By 2030, some studies suggest that 55% of the world's wealth will be controlled by women.[6]
- Urbanization will increase, especially in Asia, Africa and Latin America. By 2050, it's projected that more than two-thirds of the world's population (close to 7 billion people) will live in urban areas,[7] impacting infrastructure, employment and personal finances.
- International migration across borders with steep economic gradients will continue, especially between neighboring countries or those with close cultural links.

Sustainability growth – and growing pains

The global need for decarbonization, together with growing demand for sustainable investing – especially from younger investors – will make sustainability a major driver of change during the 2020s and beyond. Biodiversity and pollution will join decarbonization as leading environmental concerns, and social impact investing will also gain momentum. By 2027, 54% of consumers will make some use of environmental, social and governance (ESG) data for decision-making.[8]

Even so, the next few years will pose significant headwinds for sustainable investing in some markets. Regulatory and reputational risks are growing as the complexities of sustainable investing become more apparent, and politicization will create challenges, particularly in the US. The long-term advance of sustainability looks unstoppable, but it remains to be seen how its evolution will vary between different markets.

Trailblazing technology

Digitalization and technology will be the fastest-acting drivers of disruption in the 2020s. The potential impact on the investment world and the wider economy is hard to overstate.

- **Artificial intelligence (AI).** AI has immense potential to reshape the global economy; by 2030 it is expected to increase global GDP by US$4t. AI, including the evolution of generative AI, will create increasing disruption to investment processes, and will transcend conventional technology boundaries with dramatic effects across the asset management value chain. AI will not only reshape how asset managers work and how clients engage with them digitally; it will affect all our lives over many decades.

[6] Mauro F Guillen – 2030: How Today's Biggest Trends Will Collide and Reshape the Future of Everything.
[7] https://ourworldindata.org/urbanization#:~:text=Urbanization%20is%20a%20trend%20unique,areas%20as%20they%20become%20richer.
[8] https://www.ey.com/en_gl/wealth-asset-management/six-ways-asset-managers-can-prepare-for-an-uncertain-future.

- **Patterns of work.** A combination of new and existing technologies will revolutionize working habits. This is not just about remote working, which is preferred by 71% of workers, according to a survey of 3,000 remote workers globally.[9] The 2020s will also see a steep acceleration in contract work; the creation of a hybrid workforce of people and machines; the normalization of lifelong portfolio careers; and the emergence of new industries like the tech-enabled creator economy.

- **Embedded finance.** The increasing influence of tech giants and FinTechs, coupled with a tsunami of personal data from billions of online devices with data-gathering sensors, will embed finance into our digitally enabled lives. Examples could include building insurance into every transaction, integrating lending into supply chains, the development of embedded wealth management, incorporating investing, savings and financial planning into everyday transactions, and merging physical, mental and financial health care. Personalization and virtualization will undergo a significant leap.

- **Emerging technology.** Other drivers of disruption could include next generation iterations of bioscience innovations like digital health, telemedicine and gene editing; advances in virtual reality and the metaverse; and the unlocking of horizon technologies like quantum computing or nuclear fusion.

- **Decentralized finance.** The potential ability of blockchain or distributed ledger technology (DLT) to create a "decentralized finance" (DeFi) world of digital currencies and tokenized assets, enabled by new financial ecosystems and hosted on Web 3.0, will have a compounding effect over time. This will create new investment mechanisms and hybrid ecosystems with the potential to completely replace current industry structures.

[9] "State of Remote Work 2023," Buffer, Remote OK, and Nomad List.

The outlook for 2023–27:
financial pressure will erode operating margins

Despite intervening recoveries, the bear market of 2020, the volatility of 2022 and their associated economic effects have had a profound impact on asset managers' operations and finances. Long-established profitability pressures are accelerating and are only likely to strengthen over the next five years.

Firms face a growing financial squeeze

The asset management industry has handled recent market shocks well. Exchange-traded funds (ETFs) and other vehicles have performed as intended, "gating" has been less frequent than during the previous financial crisis and the plumbing of the investment world has continued to function. Firms have adapted far faster than many thought possible, embracing remote working, boosting digitalization, switching platforms and geographies, and making greater use of outsourcing.

Even so, disruption has been unavoidable. Many firms have seen their plans for growth, IPOs, acquisitions or sales thwarted by higher costs of capital and less liquid markets. Above all, asset managers have come under growing financial pressure. Revenues have been directly impacted by falling assets under management (AuM), rapid withdrawals and a loss of investment confidence; industry AuM declined by 14% during 2022.[10] Meanwhile costs have been pushed up by inflation, crisis management and spending on operational resilience and regulatory compliance. A contraction in the industry's talent pool has also created a bidding war for experienced and tech-savvy staff.

In response, many asset managers have resorted to headcount reductions, discretionary cost cutting, restructuring and mergers. Even so, the combination of weaker income and rising costs has created an industry-wide decline in profitability; representative industry profit margins fell by 3.2 percentage points during 2022.[11] Some firms have entered a negative feedback loop, with lower revenues making it harder to invest capital in the talent and technology needed to boost growth.

Ever-increasing competition

The financial pressures on asset managers will only increase. True, long-term drivers of growth – a richer, aging world with growing need for personal savings – remain in force. Despite the industry's fragmentation, barriers to entry are significant. Even so, the medium-term outlook for growth, revenue and profitability will be made more challenging by three key dynamics:

- **Demand.** Investors will demand a wider range of investment outcomes, including rebuilding capital, protecting value, generating yield and hedging against inflation. Portfolios will need to be dynamically realigned around shifting global fault lines. Institutions will seek out more tailored, full-spectrum solutions; High Net Worth (HNW) investors will switch more often in search of the best products and services. According to the 2023 EY Global Wealth Research Report that surveyed over 2,600 wealth management clients in 27 geographies, almost half of all clients surveyed (44%) plan to add a new provider (14%), move money to another provider (21%) or switch altogether (9%) over the next three years.[12]

  At the same time, retail investors will increasingly migrate to the lowest cost options in every field. The shift to passive may slow, but investors will increasingly demand passive-style fees for actively managed long – or long-short equity. At the same time, demand for more tailored solutions, more agile investment strategies and a wider choice of alternatives will push up costs. Investors' expectations for advice, support and education will increase too. Many asset managers will be unable to meet all these demands, pushing investors toward "one-stop shops" and solution specialists.

[10, 11] EY analysis of 45 large global asset managers.

[12] EY 2023 Global Wealth Research Report, www.ey.com/wealthresearch.

- **Competition.** Asset managers not only face increasing competition from each other, but also from new entrants. Insurers seeking diversification and greater capital efficiency will seek to expand their asset management activities. The erosion of barriers between public and private markets will bring more competition from private equity and private credit managers. Finally, FinTechs with strong capabilities in data and technology will make increasing inroads, especially in the wealth management space.
- **Markets.** The next few years will not see the same tailwinds for asset growth as in the prior decade. Higher drawdowns and reduced savings rates are likely to reduce net inflows, while altered monetary policy will undermine many historic investment strategies and reduce asset managers' ability to rely on steady market appreciation. Further geopolitical and macroeconomic shocks could also bring periodic disruption.

The overall effect of these industry dynamics will be dramatic. Slower AuM growth and the erosion of management fees in every asset class will hurt revenues. The value for money focus of investors and regulators will sharpen further, pushing capital toward the cheapest solutions in every asset class. And cost inflation will become entrenched by the war for talent and by spending on resilience, innovation, technology and product development.

Our model predicts painful margin contraction by 2027

EY modeling and research shows that the five-year outlook for aggregate profit margins across the asset management industry is clearly to the downside. We have modeled three industry-wide scenarios for the next five years. The model is based on AuM projections, with revenue calculated as a function of AuM and fee compression – taking shifts in asset class, asset composition, client type and economic scenarios into account (see Appendix for details). The modeling assumes fixed cost growth in line with current inflation forecasts for advanced economies, and variable cost growth of 1.0x the rate of revenue growth.

In our base scenario with an AuM CAGR of 4% from 2023 through 2027, the model predicts a decline of three to five percentage points in aggregate operating margins. Even in our optimistic scenario, which assumes an AuM CAGR of 8% over the same period, the overall profitability only increases by four to six percentage points. In our pessimistic scenario, based on no AuM growth between 2023 and 2027, the model predicts a 13 to 15 percentage point fall in operating margins.

EY model projects growth in aggregate industry operating margin only in the "optimistic" scenario

Scenarios	AuM five-year CAGR (2023–27)	Overall change in operating margin (2023–27)
Pessimistic	0%	13 to 15 percentage point decline
Base	4%	3 to 5 percentage point decline
Optimistic	8%	4 to 6 percentage point increase

The EY model also calculates the total percentage of cost takeout that the industry would need to achieve in order to sustain operating margins at their 2022 level. In our base scenario, asset managers would need to eliminate 5% to 7 % of costs between 2023 and 2027, to maintain operating margins at 2022 levels.

Many firms will see their profitability squeezed even more acutely than this, given the ability of the largest players to capture the lion's share of inflows and achieve economies of scale; the top 45 asset managers control just under half of global AuM, and the 14 largest firms manage 68% of the assets overseen by this group.[13] These dynamics will incentivize fresh consolidation within the industry, as well as greater levels of cooperation.

Without a radical change of direction, the coming years will see an increasing number of asset managers become significantly less financially viable; a growing contingent will struggle to survive in their current form. The pressures will be especially acute for second-tier, mid-sized and smaller institutions that lack scale or standout niche capabilities. Mergers and closures will thin the ranks, but new entrants will ensure a constant process of reshuffling and renewal.

In short, asset managers face a range of growing profitability pressures from investors, employees, regulators and shareholders – making it critical for firms to transform themselves for strategic resilience.

[13] EY analysis of 45 large global asset managers.

What to do:

strategic transformation for profitable growth

Asset managers planning strategic transformation often view cost reductions as their overriding priority, which is understandable given the critical need to boost profitability. In the short term, it's typically easier to realize gains from cost cutting than from topline growth. Such cost- cutting initiatives are typically tactical in nature, rather than driven by strategic objectives.

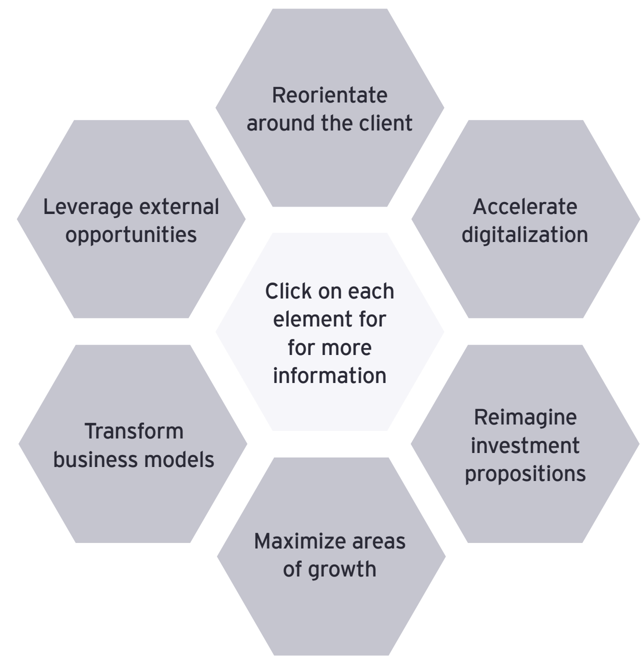
In our view, strategic renewal must be ambitious. It needs to aim beyond cost cutting and one-time revenue gains if it is to deliver sustainable improvements in strategic resilience. Firms should aspire to the gold standard of strategic transformation: financing sustainable, profitable growth through cost reductions and creating a virtuous circle of efficiency, investment and growth.

Strategic renewal must also create true differentiation. As the world becomes more volatile and complex, "me too" strategies mimicking others or chasing hot topics will not deliver lasting success. Firms need distinctive, unique strategies, which require:

- A willingness to make fundamental changes, such as restructuring, exiting businesses, products or markets, collaborating with peers, developing shared infrastructure or commercializing and monetizing core competencies.
- An awareness of every firm's unique position and capabilities. Self-knowledge is vital to developing differentiated strategies suited to each firms' strengths and weaknesses. Asset managers should focus on areas where they have a genuine competitive advantage. That might mean leveraging specific skill sets, asset classes, regions, client groups or sets of data.
- An ability to strike the optimal strategic balance between simplicity and complexity. Simplicity can aid differentiation, but in reality, few firms can rely on a single specialization. Diversification reduces risk, but it brings its own challenges and is hard to execute without scale.

Driving profitable growth efficiently requires firms to define their strategic priorities first before addressing structure and operational issues. Without clear alignment to strategic priorities, many initiatives will tend to remain too tactical in nature.

EY research shows that firms can view strategic transformation initiatives through six key lenses. These categories, intentionally designed to remain relevant to a changing industry, are consistent with those of the EY 2021 Reframing Asset Management report but the specific ways for firms to address them have evolved significantly. Implemented successfully, each set of initiatives has the potential to improve efficiency, strengthen resilience and enable faster growth. Understanding the links between each lens, and the ability of different initiatives to enhance and strengthen each other, is also critical.



Reorientate around the client

At its simplest, this is about building solutions to support outcome-focused partnerships that help investors achieve their goals. Terms like "customer centricity" and "hyper-personalization" are often used. In our view, a deep understanding of investors' needs and preferences holds the key to identifying optimal client solutions.

Developing that understanding depends on a close two-way engagement. Key processes include active listening (hearing the voice of the customer and identifying their aims) and making the complex clear (through education, virtual illustration, games and nudging). For example, the EY 2023 Global Wealth Management Research shows that 72% of clients want advisors to use a good understanding of their goals and values to inform product selection.[14] This kind of engagement helps to align solutions with client needs, of building trust and loyalty. Examples of alignment could include:

- Building inter-generational investment solutions that help aging investors to fund retirements and health care over longer lives and building on existing mechanisms for achieving efficient wealth transfers between generations
- Using an understanding of investors' views, along with education about the implications of their choices, to help clients express their personal beliefs through their investment choices

Reorientating around investors in this way will help asset managers to differentiate themselves through customer experiences as well as investment performance. The ability of outstanding experiences to reassure clients, and to preserve loyalty at times of uncertainty or stress, is arguably underappreciated in some corners of the industry. EY research shows that wealth management clients have a strong desire for expert advice on market shocks, and that 62% would review their financial plans in response to future volatility.[15]

Reorientation will also help firms to do a better job of leveraging existing capabilities and leading practices across client segments. That could include:

- Offering retail investors some features of the separately managed accounts that are only usually available to institutional and HNW investors. For example, the increasing availability of fractional shares, combined with enhancements by AI, could give retail clients far greater access to direct indexing, helping them to exercise greater autonomy over their investments and adding new levels of portfolio personalization and tax optimization. In the US alone, direct indexing industry AuM totaled US$434b at the end of 2022, and are predicted to grow at an annual rate of 12% between 2023 and 2026.[16]
- Increasing retail investors' access to a wider range of alternative investments and private market assets, which will improve diversification and performance. We explore this topic further in "Democratizing private markets."
- "Consumerizing" the experience of institutions by providing large asset owners with a B2C type experience. That might include employing client experience specialists, constructing client personas based on the roles within their clients rather than based on the type of investor (e.g., pension trustees or investment consultants), or using design principles to alleviate key pain points for institutional investors.

[14, 15] EY 2023 Global Wealth Research Report, www.ey.com/wealthresearch.
[16] The Cerulli Report-U.S. Managed Accounts 2023, Cerulli Associates, 2023.

Accelerate digitalization

The pandemic turbo-charged investors' adoption of digital channels, making online and mobile engagement the default choice for many client interactions. The question is: Where do we go from here?

The challenge now is to take digital experiences to the next level, enabling asset managers to truly differentiate themselves through client service. That means harnessing the speed and convenience of technology to transform client engagement, and to strengthen relationships with distributors and- building insight, trust and loyalty with intermediaries and end investors.

Digital technology has the potential to change the way asset managers, advisors and asset owners interact by establishing real-time, mutual engagement and data sharing through online portals and dashboards. There is also huge scope to combine generative AI, human insights and customer data to further enhance transparency and personalization, strengthening overall digital engagement with clients. It's now possible to imagine generative AI enabling the contact center of the future — with AI-powered-assisted bots directing staff through clients' interactions, and personalized chatbots harnessing the ability ask and answer complex questions on customer data and investment processes.

In the retail space, whether direct or intermediated, this could lead to the creation of next generation hybrid models that use virtual technology alongside human input to explain complex concepts or choices. Finding new ways to digitally educate investors and financial advisors will play a key role in delivering optimal experiences and outcomes. That would allow firms to replace physical distribution hubs with virtual centers for financial advice. According to the EY Global Wealth Research Report, 48% of clients prefer to receive financial planning advice via virtual tools.[17] Putting this into action, two large global wealth managers are reported to be experimenting with offering client advice through the metaverse.[18]

The institutional arena also offers huge opportunities for greater digitalization. Institutions such as sovereign wealth funds (SWFs) carry heavy responsibilities for risk management and diversification. Asset managers that can provide tailored, real-time information sharing in an easily digestible format will enjoy a strong source of differentiation.

In the future, the digitalization of engagement will help asset managers to deliver tailored client solutions in collaboration with peers and service providers. The coming years will see the growth of tech-enabled investment ecosystems providing seamless client experiences. Asset managers need to ensure they have the digital distribution capabilities to play an active role in a range of potential scenarios. (see "What's next: looking toward 2030").

[17] EY 2023 Global Wealth Research Report, www.ey.com/wealthresearch.

[18] Tiziano BaldiGalleni, "A Major Investment Bank Brought Its Financial Advice to The Metaverse," VestVers, 11 November 2022.

Reimagine investment propositions

Economic change, technological disruption and other megatrends will push asset managers to revisit how they conduct their core investment activities. Coming up with new, better ways to achieve clients' goals will call for a combination of doing things better, doing things differently and doing new things altogether.

One example comes from active management, which has seen a rebound in demand during recent crises. That provides firms with an obvious opportunity to pivot toward active management, but investors want more than existing funds at traditional levels of cost. Product development needs to become smarter, faster and technology-competitive if firms are to implement new investment ideas at pace.

This is an area where the role of AI could grow exponentially through advanced pattern recognition, time-weighted return predictions and risk outcome simulations. There is huge scope to partner AI tools with human portfolio management, achieving a step change in performance, insights and risk management. Where machine learning enables AI to predict accurate correlations, deep learning will activate signal generation from unstructured sources of data. One branch of deep learning — generative AI — could provide easy access to unprecedented volumes of unstructured data via a human-language interface. Generative AI could also help asset managers to enhance investment processes by capturing sentiment on the street, performing real-time research and conducting alpha calculations.

Technology could also help asset managers to change their other investment processes in different ways. In the middle and back offices, that could include using AI to conduct performance calculations and portfolio attribution, to strengthen scenario modeling and stress testing, or to automate data sharing with authorized participants in ETF markets.

In addition, asset managers need to embrace and leverage entirely new investment themes. That includes financing new technologies like green hydrogen, quantum computing or nuclear fusion, and supporting growing industries such as renewables. The ability to identify and seize these opportunities will become increasingly important as global disruption accelerates.

Looking further ahead, asset managers should begin preparing for a new era of digital assets and tokenization. Investor interest in cryptocurrencies, non-fungible tokens (NFTs) and other digital assets is growing — albeit from a low base. That is particularly true for younger investors; EY research shows that Millennial wealth management clients are more comfortable than average with digital assets, and three times more likely than older investors to use a digital wallet.[19] Many asset managers are understandably cautious, given low levels of investor protection; it will be important to monitor evolving regulatory approaches to digital assets, which could include a degree of cross-border divergence. Firms should also be ready to take advantage of evolutions like fractional investing and the tokenization of real and financial assets, and the developments in investment offerings that they will enable, such as low-cost direct indexing.

[19] EY 2023 Global Wealth Research Report, www.ey.com/wealthresearch.

Maximize areas of growth

Weak global growth means that it's more vital than ever for asset managers to maximize their exposure to fast-growing asset classes. Disruptive forces are creating new potential niches and opportunities to exploit but increasing competition will make it harder for unfocused approaches to deliver outperformance.

Alternative investments will remain a priority for many firms, given the diversification and growth benefits they offer investors – not to mention the fee uplift they can create for asset managers. Private markets offer attractive growth potential, thanks in part to the preference of many technology firms for private capital over public listings. More than 85% of companies with revenues above US$100m are now privately held.[20] Partnerships with private capital specialists and acquisitions of private market platforms are both likely to accelerate; The EY model suggests that – in the base scenario – alternatives' share of total industry revenues will grow from 44% to 48% between 2022 and 2027.

Infrastructure will also enjoy strong investor demand thanks to its stable, low correlation returns and social purpose. The 2020s will see a growing opportunity for asset managers to connect the providers and users of infrastructure capital, driven by mega-trends like decarbonization (clean energy generation, power networks or battery storage) and urbanization (transport networks, education, housing, education or sanitation).

Even so, alternatives are not a one-way approach for asset managers. The margin uplift they generate will erode over time as more firms enter the arena and competition increases. Furthermore, long-term success in alternatives calls for specialized skill sets and industry knowledge outside many firms' traditional competencies – pushing up costs and complexity.

Sustainable (or ESG) investing presents a similar set of trade-offs for asset managers. Firms have an invaluable opportunity to play a growing role in mobilizing capital for decarbonization and other goals in partnership with investors, investees and governments. There is an equally strong appetite from many institutions and individuals to provide that capital.

Set against that, the costs of ESG investing are being pushed up by onerous reporting requirements, contradictory disclosure frameworks and the complexities of data management. Reputational and greenwashing risks are increasing as regulators and investors become more demanding. Increasing competition threatens to push down margins, and politicization is growing – especially in the US. In short, ESG will not deliver sustainable, profitable growth for every asset manager. We examine this topic further in "Time for ESG 2.0?."

High-growth markets. A combination of the Russia-Ukraine conflict, a weaker Chinese economy with just a 5% 2023 GDP growth target – lowest in decades – and a rapid growth in other developing markets are prompting international asset managers to review their geographic priorities.[21]

Going forward, firms will need more sophisticated strategies to take advantage of high-growth markets. Few will want to ignore China, but growing political risks may encourage some firms to tread carefully, for example by offering "ex-China" funds alongside existing products. Meanwhile, youthful populations and the expansion of the affluent middle classes in Southeast Asia, India and the Middle East will create a range of regional opportunities for asset gathering and market share growth.

Once again, asset managers need to remember that successful specialization is not just about the front office. To compete effectively, operating models will need to deliver the right capabilities in the right places. Reconciling local needs (such as specialized onshore systems) with global structures (such as the cloud) will be difficult. Firms could also face difficult questions over data sovereignty and portability.

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[20] Panel discussion from the Future of Asset Management North America 2022 conference, Financial Times.

[21] Thomas Hale in Shanghai and Andy Lin, "Chinese economy falls into deflation as recovery stumbles," Financial Times, 9 August 2023.

Democratizing private markets

The superior growth rates of private markets in recent years have made private equity and debt a mainstay of institutional investing. Private markets' potential to boost returns and diversification means that demand for these alternative investments is now growing rapidly among semi-professional and retail investors.

However, while investors are quick to grasp the potential for higher returns from private market investments, they can overlook the fact that those returns reflect a range of factors including higher levels of risk, lower liquidity and specialized expertise.

Many asset managers are now aiming to participate in the "democratization" of private market investing. Private market platforms providing secondary liquidity and periodic trading windows are proving increasingly popular with HNW and accredited investors. Regulatory frameworks like the EU's European Long-Term Investment Fund (ELTIFs) and the UK's Long-term asset funds (LTAFs), together with the U.S. Securities and Exchange Commission's (the SEC) recent strengthening of private funds' disclosure requirements, a move intended to enhance investor protection, will continue to encourage the growth of specialized hybrid products providing liquidity-enhanced access to private markets.

Even so, the growth of democratization needs to be managed carefully. The lengthy timeframes of typical private investments pose an obvious challenge to ensuring suitability and investor protection. Perceived failings of advice, transparency or liquidity could trigger a regulatory response that prevents retail investors from accessing the benefits of private assets.

To mitigate these potential risks, investment providers should focus on suitability and education. The use of persona-based segmentation can help firms to understand their clients' background, experience with alternatives and desired outcomes and ensure that they invest in suitable limited-liquidity alternative products. The education of investors and intermediaries is also crucial to building awareness, ensuring that clients have a good understanding of liquidity risks, and that they are well informed about advisors' portfolios allocations.

As supervisory scrutiny grows and competition increases, asset managers hoping to participate in the democratization of private markets may need to choose between developing highly specialized offerings and business models or limiting private market access to specific channels (such as wealth management) or institutional intermediaries (such as pension funds).

Time for ESG 2.0?

Asset managers' decisions about ESG products and services can no longer be separated from wider questions of strategy. Firms aiming for long-term growth in this area need a smart vision for ESG that's fit for the 2020s and beyond.

At one level, this is about achieving successful transformation – matching operating models with ESG plans in a way that enables lasting, profitable growth. As competition and scrutiny grow, increasingly sophisticated approaches to ESG will be required. That might mean focusing on a specific market or area of expertise. Greater specialization could even lead to a gradual disaggregation of ESG in the years ahead.

At a more fundamental level, greenwashing risks and the increasingly polarized debate over decarbonization mean that asset managers' ESG strategies are becoming indivisible from their core philosophy and values. That, in turn, requires careful thought about what values they stand for. Should firms reflect their clients' beliefs? If so, which clients? Or should they choose their own values? And if so, what are they?

A failure to confront these questions will leave asset managers vulnerable to accusations of hypocrisy. That may be tenable for a while, perhaps even for a few years, but sooner or later most asset managers will face a hard choice. They will need to decide whether to implement a consistent vision of ESG across the organization – likely leading to withdrawal from certain activities, or to abandon claims of sustainability altogether – ceding ground to specialized providers.

Transform business models

Transforming business models is crucial to asset managers' ability to implement strategies for growth while also achieving decisive improvements in productivity. The aim is to create a sustainable, efficient foundation for growth by:

- Reducing costs in absolute and relative terms
- Changing fixed costs to variable costs, thereby increasing flexibility
- Making operations more scalable
- Improving cost transparency and oversight

Robust approaches to business model transformation take a joined-up, top-down approach to improving efficiency and optimizing investments in profitable growth. Key elements should include:

- **Strategic levers.** These are about setting priorities, such as where to compete and how to win. Key actions might include exiting activities that lack scale or differentiation.
- **Structural levers.** These are about transforming operating models, such as rationalizing physical locations and legal entities. Important steps could include outsourcing middle- and back-office functions like finance, risk and compliance to third parties or using partnerships with peers to create cross-industry utilities.
- **Tactical levers.** These are about maximizing the efficiency of operations. Potential priorities might include harnessing AI for generating reports and marketing content; rationalizing and converting fund ranges; or carrying out large-scale transformations such as contact center operations that deliver measurable improvements in cost efficiency, agent productivity and client experiences.

The process of establishing asset managers' chosen data architecture and technology infrastructure needs to be integrated into the above activities. Firms should aim to achieve a high level of interoperability, building a shared digital framework that can support multiple customer journeys and make every product and service "technology competitive" (see "Linking technology, data and growth").

As they pursue transformation, it's important for asset managers to maximize the positive upsides of every productivity gain. For example, firms shouldn't look at outsourcing or managed services only as drivers of efficiency and scalability. Working with third parties can also give firms access to valuable external talent and capabilities.

Similarly, business model transformation can help to optimize innovative capabilities. Firms can use the process to implement leading practices, for example by introducing different incentives, reducing fear of failure, empowering small multiskilled teams to try new ideas or accelerating decision-making to enable nimble, mid-journey pivots to different use cases.

Linking technology, data and growth

Understanding that it is technology that maximizes the value of data is key to successful strategic transformation in asset management. Experience shows that harmony between the two elements is crucial. Data limitations undermine many technology implementations, while failings in technology can render the most valuable data useless.

An integrated technology architecture (both internal and external), combined with unified data access and frictionless data sharing, is key to delivering the interoperability that's vital to productive, scalable business models. Breaking down silos to build platforms that can support multiple segments, markets and activities is essential.

Integrating changes to technology and data strategies into business model transformation helps to align changes to digital infrastructures with other alterations to operating models. It also avoids the risk of overinvestment in legacy technology updates, which are often slow and costly. That will enable asset managers, among other things, to:

- Make optimal use of the cloud and other vendor services, offshoring and shared service centers and the capabilities of asset servicers and custodians.
- Complement internal capabilities with short-term enhancements from FinTechs and technology vendors, enabled with "plug and play" modularity.
- Develop real-time connections, enabled by APIs, to a growing ecosystem of advisors, consultants, data providers, vendors and solution partners.

However, asset managers must remember some transformations are inherently harder to achieve than others. The greater the specialization, the harder it becomes to identify the ideal digital framework. For example, firms offering a wide range of alternative investments may find that even the largest asset servicers can't provide key functions such as regulatory reporting. This limits efficiency gains and makes the right in-house architecture even more important (see "How to do it: Routes to successful implementation").

Smarter approaches to people and culture

The quest for talent and the difficulty of finding experienced hires mean that people are becoming the leading limitation on asset managers' ability to transform and grow. Firms need to find new ways to scale up their activities without relying on growth in headcount.

Fortunately, the need for a new approach to talent coincides with a new wave of digitalization. Asset managers have an unprecedented opportunity to harness AI and other tools, automating repetitive or intensive tasks and using AI copilots to help new staff get up to speed faster. That will not only increase efficiency but will free up employees' time for more interesting and value-added work. AI will only rarely trigger job losses; instead, it will enable greater productivity and scalability among existing workforces.

The creation of a new "hybrid" workforce of technology-enhanced employees will have far-reaching implications for asset managers' approach to talent management. These might include:

- An opportunity to recruit different skill sets or personality types – for example, more thinkers and fewer "doers"– especially outside the front office
- A need for technology investment to be prioritized around the benefits it delivers for staff as well as clients
- An ability to manage and develop talent in new ways, for example by moving people around the organization, which can be helpful in building future leaders
- A need to ensure that existing staff receive ongoing training and education on changing products, evolving firm capabilities and the optimization of technology tools available to them

In short, asset managers' talent strategies need to become smarter, more agile and more creative. That should include innovative approaches to talent nurturing, such as providing formal, high-quality, on-the-job-training instead of competing for elite university graduates.

Altered people strategies will also provide asset managers with a valuable opportunity to build stronger, unifying cultures that nurture staff and bind their organizations together. As competition grows, robust and distinctive cultures will become increasingly important to delivering lasting, profitable growth. That is true for specialized firms, which need a clear mission focus, and for larger institutions needing to unite complex and diversified workforces.

Leverage external opportunities

External and inorganic growth avenues will naturally gain strategic importance as profit margins and growth rates decline in the years ahead.

The advantages of scale and diversification, coupled with the industry's persistent fragmentation, mean that mergers and acquisitions (M&A) will remain an important tool of expansion. However, M&A is not a strategy in itself. Large-scale transactions with a simple "bulking up" rationale could become increasingly rare, given the mixed track record of such deals — especially those with mixed messages about their strategic rationale.

Instead, asset managers will increase their focus on delivering fresh synergies from past deals, and on using tactical investments to achieve quick gains in targeted capabilities. The most successful deals will have clear strategic goals, such as acquiring specialized investment skills, or accessing attractive markets, technological expertise or mature distribution networks with established client bases. Flexible infrastructures that can onboard new talent quickly, while maintaining a strong focus on cultural alignment, will be key to generating value from M&A.

Rapid advances in technology mean that asset managers will increasingly find tech-enabled collaboration the most cost-effective source of external growth. Alliances and partnerships will help firms to enhance their capabilities without the need to build or buy — making it easier to deploy limited capital elsewhere.

Alliances and partnering will accelerate creativity and innovation, helping firms to implement strategic initiatives far more quickly than before. Examples could include:

- Creating closer relationships with technology vendors and other suppliers, such as co-investing with FinTechs rather than just paying for their services
- Making greater use of leading asset managers' outsourcing platforms in areas such as order management or risk management
- Collaborating with rivals — bilaterally or through industry consortia — to develop mutual platforms providing shared services in areas such as know your customer (KYC)

Looking ahead, flexibility and modularity will become crucial to asset managers' ability to play an integral role in the investment ecosystems of the future. It will be better for firms to play an active role in the creation of new ecosystems than to see them defined by more innovative rivals.

To prepare for this, firms should focus on their areas of strength; identify the elements of client journeys that other institutions are better able to provide; and develop the digital connections that will provide investors with seamless experiences. Flexible operating models that can easily onboard new teams and "plug and play" with external technology will be crucial to asset managers' ability to flex and adapt their strategies as circumstances change.

How to do it:

routes to successful transformation

At some point, strategic planning must give way to tactical implementation. The urgency of transformation, the importance of focus and the increasing costs of labor and capital all mean that a robust approach to implementation is vital.

Asset managers need a credible transformation methodology with proven success in the real world. A successful strategy-driven approach starts with the big picture, identifies the required capabilities and gaps, defines the target operating model, then finally focuses on solution selection and implementation.

This top-down approach is vital to focusing investment in the right areas. Firms should resist the temptation to "do something with AI" or to throw other distractions into the mix. It's essential to concentrate investment where it will maximize return on investment (ROI) and to focus on innovations that offer proof of value, not just proof of concept.

Understanding that "form follows function" is key. Before implementation begins, leaders must be clear about their strategic goals — the kind of organization they want to be, and the strategies they want to pursue. For example, a strategy based on innovation calls for a flexible organization, while a strategy based on high volume product manufacturing needs a standardized infrastructure.

In short, the more ambitious the strategy, the more complex the required operating model and the more challenging the implementation. The good news is that the dramatic changes of the last few years have made it far easier for many firms to overcome cultural resistance to change.

A strong approach to transformation will help asset managers to:

1. Identify areas of competitive advantage to focus on — such as fund manufacturing, wealth advice or the provision of specialist services. Work to ensure clarity around a unified vision that leverages the firm's key competencies. Harness strong leadership from the top of the organization to generate stakeholder engagement and support.

2. Prioritize the strategic implementation of emerging technologies. Asset managers now have huge opportunities to use new technologies to transform functions including financial planning, customer service, compliance, product development, settlement and clearing. A holistic approach with well-defined objectives will unlock value through prioritization, cost reductions, seamless experiences and secure, streamlined processes.

3. Integrate cost management efforts into wider business model transformation initiatives, protecting profitability and investing in long-term growth areas. One example could be using outsourcing and managed services for middle- and back-office functions like investment and fund accounting.

4. Enable connections that support business model transformation and propel innovation across the organization. These could include forging productive relationships with rival asset managers, technology vendors and regulators, while also creating the flexibility and modularity to play a key role in the growth of wider tech-enabled ecosystems.

Asset managers should keep stakeholder value as the "North Star" throughout the transformation process. Focusing on delivering incremental benefits to the business, to staff and to clients will help to maintain this focus and maximize the ultimate level of value creation.

What's next:
looking toward 2030

So far, we have focused on how the asset management industry will evolve over the next five years, and on how strategic transformation will help firms respond to those changes. But what comes after that?

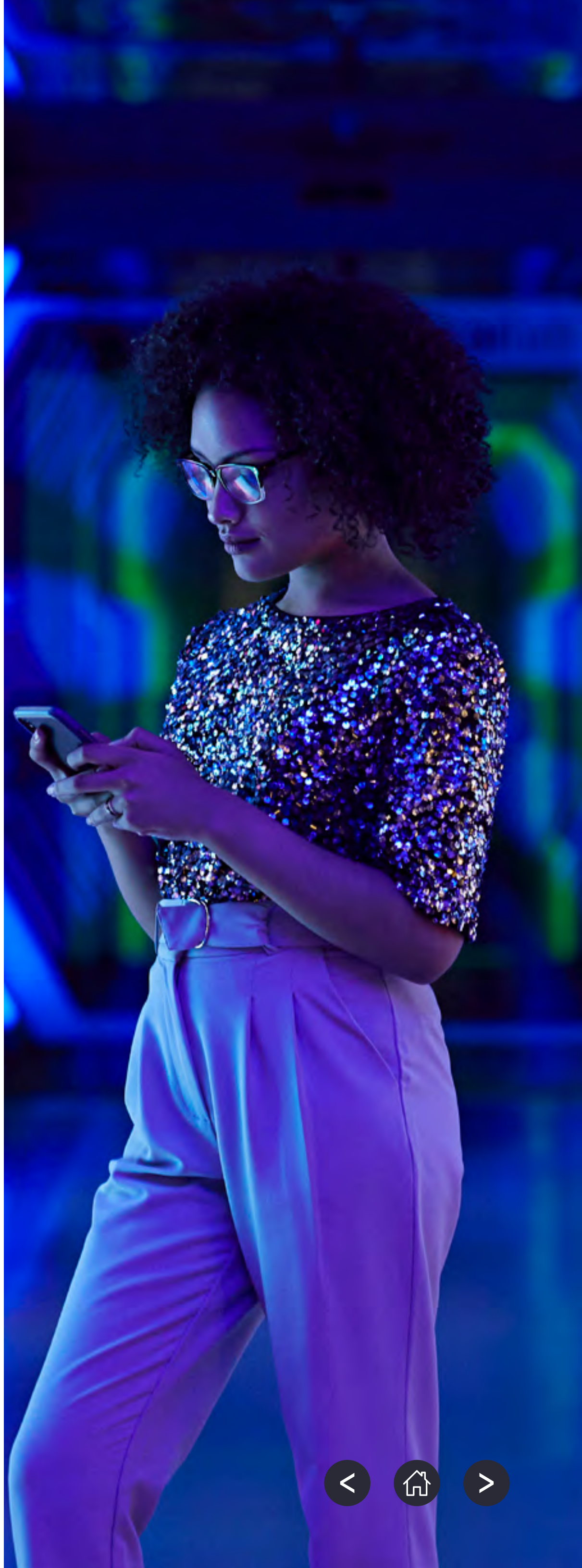
By 2030, asset managers could be facing any one of many radically different but plausible futures. Conventional planning processes can exaggerate continuity and reduce adaptability, yet the 2020s have already shown how external developments can lead to dramatic and unexpected change.

To maintain strategic flexibility, firms should model a range of scenarios; monitor a range of "weak signals" such as patents, emerging innovations and venture capital (VC) rounds; and identify the potential effect of intersections between disruptive technologies. Scenario planning and future-back thinking can help to identify and prepare for radical changes, such as the restructuring or replacement of key features of the investment landscape.

This is not just about identifying risk. Unexpected futures will also bring unforeseen opportunities. Firms should ask themselves what role their organization might play in a range of future worlds and begin planning their possible responses, based on an assessment of each scenarios' likelihood, timing and potential impact. Questions for firms to ask themselves could include:

1. How would we position ourselves in response to this scenario?
2. How should we act if progress toward this scenario accelerates?
3. What can we do now to begin preparing for this scenario?
4. What other organizations could we work with in this scenario?

Based on discussion with a diverse group of EY industry professionals, we now set out seven ways in which the industry could be radically reframed by 2030. These scenarios are very different from status quo – and each other – but not as remote or unlikely as they may appear at first blush.



How would you respond if ...

1

The industry gave every adult fully transparent participation in the growth of capital markets

Features of the scenario: the industry totally democratizes investment, providing low-cost, digitized products to the entire adult populace. Investors have full and instant transparency of their investment holdings, enabling them to look through to underlying assets and their ESG profiles, and asset managers play a central role in financial education. Every asset manager has some involvement, motivated both by the scale of the opportunity and by the need to maintain their "social license to operate."

Enablers of the scenario: industry and public bodies collaborate to boost financial literacy and agree on a legal and regulatory framework that provides a minimum level of investment access to all. Digital ownership of assets is recorded on a distributed ledger, removing the need for conventional fund structures and their associated costs. This, combined with universal ESG standards and the internet of things (IoT), allows granular real-time financial and nonfinancial reporting.

2

Asset managers were measured and rewarded on long-term value creation for all stakeholders

Features of the scenario: asset managers are at the nexus of global investment flows, working with investors, governments and regulators to channel capital into sustainable and productive companies, infrastructure and technologies. Instead of basing fees on asset value or benchmarks, firms' income is derived from a blend of economic and nonfinancial outcomes, with claw backs for underperformance.

Enablers of the scenario: the need to fund infrastructure renewal and the global transition from private capital makes asset managers a critical enabler of long-term growth. Improved taxonomies, technology and methodologies allow for consistent, transparent measurement of long-term value creation for investors, staff, society and the environment.

3

Tokenization and fractional ownership removed the need for fund structures

Features of the scenario: ownership of financial, real-world and digital assets is recorded on distributed ledgers, making fund vehicles obsolete. Reporting is automated and value transfers are executed via smart contracts. Tokenization and fractionalization broaden access, democratizing private markets and alternative assets. Brokers and investment advisors are forced to change their business models to fit the altered distribution landscape, while asset managers focus on innovation, alpha generation and providing tailored insights to investors and intermediaries.

Enablers of the scenario: rapid and broad-based adoption of DLT allows for the virtual, fractional ownership of a wide range of securities, physical objects and digital assets. Transformation is enabled by new regulatory frameworks and a strong legal basis for digital title. The security, convenience, transparency and low costs of distributed ledgers sees demand for funds fall steeply, especially among younger investors. The creation of central bank digital currencies aids in the creation of virtual capital markets.

4

A combination of generative AI and machine learning replaced human portfolio managers

Features of the scenario: investment management is largely conducted using AI with limited human intervention. AI tools can follow pre-selected and defined investment guidelines, simulate risk scenarios or develop new investment approaches based on analysis of conventional market data or hidden signals derived from alternative, open or unstructured data sources. AI decision-making can be tracked and audited in real time.

Enablers of the scenario: asset managers develop, or gain access to, cognitive AI capabilities. Firms use a combination of human skills and AI tools to revolutionize portfolio management techniques. Decision-making is real-time, automatic and scalable. Investment management talent is repurposed to oversee the evolution of AI, identify new areas for investment, enhance client service and provide tailored advice to key investors.

5

Direct to customer (D2C) became the industry's default client relationship type

Features of the scenario: asset managers operate large D2C distribution networks based on online connections, sourcing inflows direct from investors or via introductory online platforms. Client experiences and digital interfaces can be flexed to suit local market practices and individual investor preferences.

Enablers of the scenario: large firms acquire or build D2C portals in a drive for disintermediation, encouraged by regulatory pressure for clearer reporting, lower costs and greater fee transparency. Distributed ledgers allow for instant processing of transactions. Client reporting and education is enhanced through next generation tools including virtual and augmented reality.

6

All asset managers operated within a single online investment ecosystem

Features of the scenario: multiple technologies combine to make legacy investment infrastructures uncompetitive. New investment markets and ecosystems replace former industry structures. Distributed ledgers create a "DeFi" world of decentralized finance, enabling the emergence of a shared digital register of ownership for digital currencies, tokenized assets and NFTs.

Enablers of the scenario: close alliances with technology providers and collaboration between asset management rivals allow for the creation of shared platforms and industry-wide interoperability. This begins with greater web-enabling of current activities before the emergence of Web 3.0 (the next iteration of the internet) uses distributed networks to create a totally decentralized financial ecosystem.

7

A handful of tech giants monopolized critical technology, becoming industry gatekeepers

Features of the scenario: asset managers are dependent on large technology providers for lower-cost, high availability and reliable infrastructure. This may reflect the need to harness scalable computing power, to manage critical data sets, to access cognitive AI services or to work with technology firms on their embedded finance offerings. Asset managers are effectively subordinate to tech giants, rather than equal partners.

Enablers of the scenario: regulators permit asset managers to develop excessive dependency on a handful of providers offering cloud computing services, AI or other capabilities at a fraction of the cost of traditional vendors. This is reinforced by asset managers' need for reliable horizontal or vertical infrastructures that can support high-impact or customer-facing applications.

Conclusion:

reframing asset management

The need for strategic resilience in asset management is increasingly urgent. The industry faces acute financial pressure and accelerating disruption from geopolitics, demographic shifts and technological change. Many firms will need radical transformation to develop true and sustainable strategic resilience.

We have set out why decisive change is required and how a combination of transformation initiatives, funded by cost reductions, can generate sustainable profitable growth. We have also outlined a tactical approach to implementing transformation and suggested a range of future scenarios that asset managers may wish to begin planning for.

However, ambition and execution are only part of the story. Strategy must be grounded in purpose. Ultimately, the industry exists to serve investors. How can the best asset managers help people: By allowing them to retire earlier? To finance major life events? To finance the new economy?

Fulfilling this fiduciary role is intertwined with the need for sustainability. Preserving our planet and communities is vital, and an increasing priority for many investors. But careful thought is required if firms are to successfully align the interests of their investors, their staff, their own shareholders and wider society.

Strategy must also be distinctive. Firms need to avoid copycat approaches that fail to provide investors with truly differentiated offerings and experiences. "More of the same" products and approaches suited to a pre-COVID-19, globalized world of cheap money won't work.

The benefits of scale and diversification should enable the industry's largest firms to make the best use of data, technology and talent over the next few years. But size will achieve little on its own, and specialists that can consistently demonstrate the value of their capabilities will continue to succeed.

Longer term, there is no guarantee that the industry of the future will resemble that of today. Technology and other drivers of change could overturn current assumptions about success and failure. Optimizing current models is not the endgame. New investment ecosystems, within which asset managers may play very different roles than those of today, are already beginning to emerge. The creation of totally new investment mechanisms could bypass existing industry structures altogether.

That makes it more important than ever for asset managers to speak with one voice, whether championing the industry's vital role or advocating for global standards and investor protection.

Asset management will always be needed, but today's methods, structures and organizations may not. Firms have an opportunity to reframe the future and elevate their purpose by transforming themselves for strategic resilience. They should own it and lead from the front.

Appendix –
EY modeling

The EY modeling of asset management industry profitability is based on assumptions about growth rates in aggregate AuM over a five-year time horizon.

For this report, we have highlighted three scenarios:

- A base case involving an AuM compound annual growth rate (CAGR) of 4% per year, equivalent to total AuM growth of approximately 22% between the start of 2023 and the end of 2027
- An optimistic case using an AuM CAGR of 8% per year, equivalent to total AuM growth of approximately 47% between the start of 2023 and the end of 2027
- A pessimistic case with an AuM CAGR of 0% per year, equivalent to total AuM growth of 0% between the start of 2023 and the end of 2027

The model predicts revenue as a function of AuM, and takes into consideration fee compression at four levels:

- By asset class – equity, fixed income and alternatives (excluding money market or cash funds)
- By strategy – active vs. passive
- By client – retail vs. institutional
- By scenario – with fee compression at 75% of base scenario rates in the optimistic scenario, and with fee compression at 125% of base scenario rates in the pessimistic scenario

When it comes to expenses, the model assumes:

- Fixed cost growth rates in line with current consumer price index forecasts for advanced economies
- Variable cost growth rates equivalent to 1.0x revenue growth rates

Model outputs for each scenario are:

- The resulting impact on industry aggregate operating margins (expressed in percentage points)
- The level of cost takeout required over the next five years in order to sustain operating margins at 2022 level (expressed as a percentage of total costs)

Key contacts for six areas of focus

Six areas of focus	Americas	APAC	EMEIA
Reorientate around the client	**Jarlath Forde,** Principal, Wealth & Asset Management, Ernst & Young LLP **Kristina Theiss,** Executive Director, Wealth & Asset Management, Ernst & Young LLP	**Diana Quinn,** Partner, Business Consulting Financial Services, Ernst & Young Australia	**James Hodgson,** Director, Wealth & Asset Management, Ernst & Young LLP
Accelerate digitalization	**David Clarke,** Wealth & Asset Management Transformation Digital Leader, Ernst & Young LLP **Fayaz Jaffer,** Principal, Wealth & Asset Management, Ernst & Young LLP	**Han Wee Tan,** Partner, Wealth & Asset Management Consulting, Ernst & Young Advisory Pte Ltd	**Thierry Groues,** Partner, Ernst & Young Advisory; EY France Wealth & Asset Management Consulting Leader; EMEIA Digital Transformation Leader
Reimagine investment propositions	**Phil Andriyevsky,** Americas Wealth & Asset Management Data and Analytics Leader **Gavin Kaimowitz,** Executive Director, Wealth & Asset Management, Ernst & Young LLP	**Amy Spencer,** Director, Technology Consulting, Ernst & Young Australia	**Phil Tattersall,** Partner, Wealth & Asset Management Technology Consulting, Ernst & Young LLP
Maximize areas of growth	**Shake Culzac,** Senior Manager, Wealth & Asset Management, Ernst & Young LLP **Adam Gahagan,** Senior Manager, Wealth & Asset Management, Ernst & Young LLP **Kristina Theiss,** Executive Director, Wealth & Asset Management, Ernst & Young LLP	**Bruce Deaner,** Associate Partner, EY Strategy & Consulting Co.Ltd., Financial Services	**Mark Wightman,** UK Wealth & Asset Management Consulting Partner, Ernst & Young LLP
Transform business models	**Tommy Arnold,** Principal, Wealth & Asset Management, Ernst & Young LLP **Joe Deitzer,** Principal, Wealth & Asset Management, Ernst & Young LLP	**Mandeep Gill,** Director, Business Consulting, Wealth & Asset Management	**Sarah Clarricoats,** Director, Wealth & Asset Management, Ernst & Young LLP
Leverage external opportunities	**Riya Sen,** Principal, EY-Parthenon, Strategy & Transactions, Wealth & Asset Management, Ernst & Young LLP	**Dominic Leary,** Partner, Financial Services, Strategy & Transactions, Ernst & Young LLP	**Ari Constantinou**, Partner, EY-Parthenon, Strategy & Transactions, Ernst & Young LLP

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