KPMG 2023 Asset Management CEO Outlook

Leaders focus on political and economic uncertainty, ESG, attracting and retaining talent and generative AI.

KPMG in Belgium

kpmg.com/be

Contents

Andrew Weir

Global Chair, Asset Management, KPMG International

Many asset management CEOs worldwide are facing significant uncertainties. Interest rates have risen sharply, resulting in a more challenging investment environment. The world is becoming more complex, and the nature of globalization is changing with conflicts, tensions and sanctions impacting investment. Notwithstanding this, there is no shortage of capital, liquidity and flows into asset management.

At the same time, there is an increasing recognition of the power of capital to make a difference and improve both the environment and society. ESG has often involved filtering out investments but can also mean positive choices, such as financing energy transition projects. Asset management is in the vanguard of a shift towards increased levels of corporate trust and purpose.

Asset managers have to fight for talent and set strategies for growth, with our research finding an increasing appetite for mergers and acquisitions. Technology presents opportunities and risks including cyber attacks and data governance failures, opportunities from digitization and upheaval from generative artificial intelligence, all of which are addressed in this research. I hope you find it useful in understanding the views of industry leaders.

Asset management CEO priorities

Economic value creation

- Asset management CEOs are a little less confident about economic growth than they were a year ago, but most are optimistic about both the sector and the global economy.
- Over the next three years, 89 percent of the CEOs surveyed anticipate growth in organizational earnings and 84 percent think they will employ more people.
- Political uncertainty has risen to become the greatest perceived threat, followed by interest rate risks and emerging and disruptive technology.

Trusted purpose

- ESG's greatest impacts on asset management affect capital allocations, partnerships, alliances and customer relationships.
- Most asset management CEOs expect to see ESG investments taking at least three years to provide returns. Net zero greenhouse gas emissions are their most mentioned specific priority.
- The majority of these CEOs say they are willing to take a political or social stand on a contentious issue and divest a profitable but reputation-damaging part of the business.

Strategic planning

- Attracting and retaining talent has risen to the top of asset management CEOs' list of operational priorities, followed by inflation proofing and advancing digitization and connectivity measures.
- The proportion of CEOs saying they have a strong mergers and acquisitions appetite has increased sharply from 40 percent last year to 58 percent.
- Around three-quarters of the CEOs think they should use a collaborative leadership style and expect to take a public stand on behalf of their organizations, even if this conflicts with their own beliefs.

Technology and digitization

- Most asset management CEOs surveyed see cyber crime and cyber attacks as pressing issues, with 28 percent adding that their organization is under-prepared for an attack.
- Most of those surveyed believe employees are likely to be rewarded if they work in the office rather than remotely. Just one-tenth expect all office work to be carried out remotely in future.

Generative AI

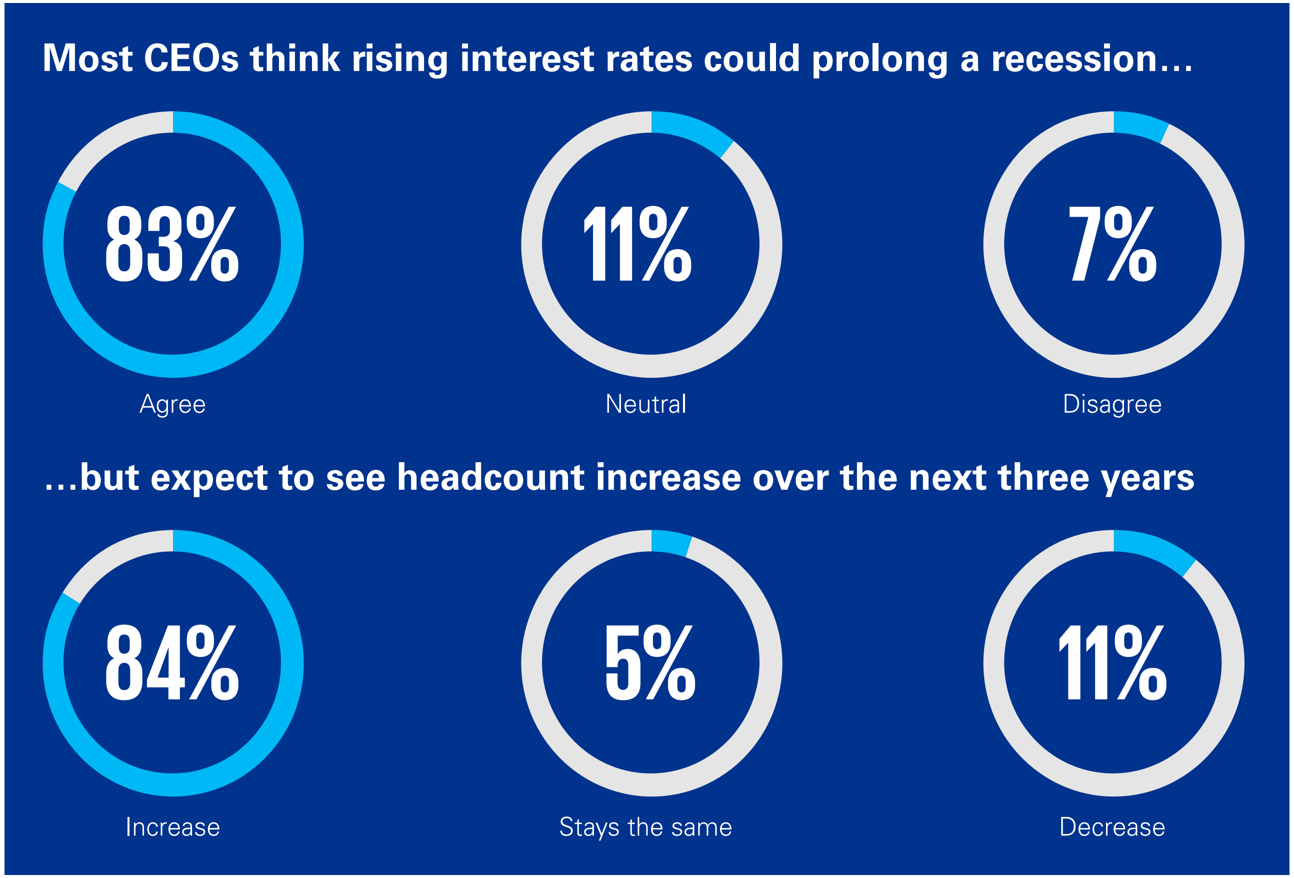
- Generative artificial intelligence is seen by these CEOs as an important investment opportunity, particularly for product and market growth, fraud detection and cyber attack responses, efficiency and productivity.
- But CEOs are concerned about a lack of regulations and direction for generative AI, with three-quarters agreeing such regulation should mirror that for climate change.

Economic value creation

Asset management CEOs are somewhat less confident about economic growth than they were a year ago, although most continue to take a positive view. The proportion of respondents expressing confidence in the global economy is **69 percent**, down slightly from 71 percent in 2022, with **83 percent** believing rising interest rates and tightening of monetary policies could prolong a potential recession.

They are more optimistic about asset management itself, with **76 percent** confident of growth in the industry (80 percent last year) and **73 percent** having confidence in their own company's growth prospects. The industry is increasing in scale in many parts of the world, including by providing alternatives to bank savings through money market funds and expanding in previously underserved markets in Asia-Pacific.

Most of the CEOs in the research, **89 percent**, expect their organizations to report growth over the next three years, almost unchanged from 90 percent in 2022, although there has been an increase in those expecting negative growth from 2 percent to **8 percent**. The proportion expecting to employ more people in three years' time has increased from 80 percent last year to **84 percent** this year, although again the research has also seen more respondents expecting headcount to fall, from 4 percent in 2022 to **11 percent** now.



Source: KPMG 2023 CEO Outlook, KPMG International, October 2023.

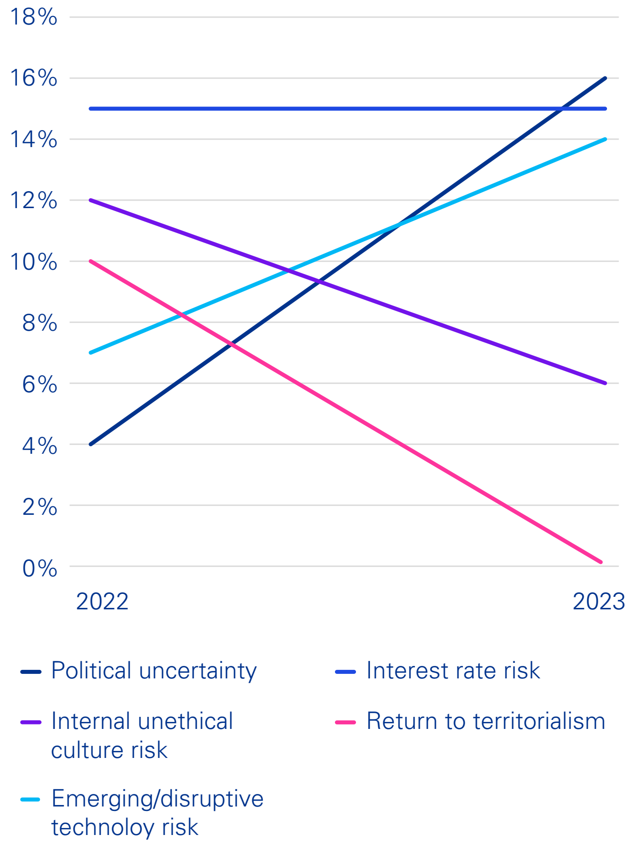
This year's research found that political uncertainty has shot to the top of asset management CEOs' list of perceived threats with **16 percent** mentioning it, up from 4 percent last year. Concern over last year's biggest issue, interest rate risks, remains unchanged at **15 percent**, with asset managers having to cope with higher costs of financing while designing products with returns that exceed the greatly increased rates of risk-free assets such as government debt.

Respondents showed increasing concern over emerging disruptive technological risks including generative AI, discussed later in this report. Last year's worries over a return to territorialism have fallen away while those on internal unethical culture have reduced, although this is likely to be due to leaders developing ways to tackle both issues rather than either having gone away.

> **"The changing political landscape and the nature of globalization present challenges and also opportunities. The key is to have different scenarios and stress testing of alternative models. These changes can affect the external market for products, hiring market and supply chain. This is all in the context of massive business scrutiny and the expectations of employees and customers about an organization's stance on political and social matters. It is about the importance of resilience and agility in uncertain times."**

Andrew Weir
Global Chair, Asset Management,
KPMG International

How threats to asset management have changed from 2022 to 2023



Source: KPMG 2023 CEO Outlook, KPMG International, October 2023.

Trust and purpose

The greatest impact of ESG (environmental, social and governance) considerations on asset management is on core functions including capital allocation, establishing partnerships and alliances, with customer relationships close behind. This shows how ESG has become a strategic issue which is fundamental to the brand and reputation of any asset manager. For example, decisions over whether to engage with a sector or country are likely to be used by potential customers and partners to decide whether to offer business or engagement. This is an area where asset managers should expect high levels of scrutiny over their decisions.

Asset management CEOs see ESG investments as providing returns in the medium rather than the short term, with **49 percent** expecting these in three to five years with **30 percent** expecting them in less than three years and the rest longer than five years. Environmental challenges including net zero greenhouse gas emissions is the most mentioned ESG priority, cited by **41 percent**. Respondents say the greatest barriers for global corporations in moving to net zero are a lack of internal governance and controls to put such work into action, mentioned by **28 percent**, followed by issues with supply chains and a shortage of skills and expertise.

> **"Investment stewardship, such as through corporate engagement and voting, is increasingly recognized as a way that asset owners and managers can influence the energy transition. Such stewardship combined with positive screening can allow asset owners and managers to make a more positive contribution than merely divesting from a sector. It is important to support a just transition on energy that considers the societal impacts of moves towards net zero."**
>
> **Geri McMahon**
> Global Head of ESG for Asset Management, KPMG International

Impact of ESG strategy

Shaping our capital allocation, partnerships, alliances and M&A strategy	25%
Building customer relationships	23%
Attracting the next generation of talent	15%
Driving financial performance	14%
Driving total shareholder return	13%
Building our brand reputation	10%
Strengthening employee engagement and employee value proposition	1%

Source: KPMG 2023 CEO Outlook, KPMG International, October 2023.

KPMG research shows that many asset management CEOs are willing to take specific action to demonstrate their values, with the proportion willing to take a stand on a contentious issue even if their boards were concerned rising to **62 percent**. Even more, **68 percent** say they are willing to sell a profitable business unit if it is damaging the company's reputation.

Almost all respondents say they invest in social and community programs that align with their core values, with **43 percent** supporting a number of programs globally, **41 percent** supporting one program globally and **11 percent** investing in local programs. The majority, **67 percent**, agree that progress on diversity and inclusion has moved too slowly in the business world.

It is worth noting that ESG initiatives may be challenged from more than one direction. Some investors may argue that measures take the wrong approach, such as by blocking investment in activities that are unpopular but beneficial. Meanwhile, campaigners may feel that ESG initiatives are ineffectual, in some cases asserting that they are 'greenwashing' designed to deflect attention from corporate transgressions. The pros and cons make this is a very complex area for asset managers to navigate.

CEOs willing to take a stand on a politically or socially contentious issue

62% (2023)

56% (2022)

CEOs willing to divest a profitable but reputation-damaging part of the business

68% (2023)

64% (2022)

Source: KPMG 2023 CEO Outlook, KPMG International, October 2023.

“

A big challenge is also how to get the right narrative on the social aspects. It is not just about employment, but about the benefit you're providing for society. The S of ESG needs more thought, more models and more measurement.”

Andrew Weir
Global Chair, Asset Management,
KPMG International

Strategic planning

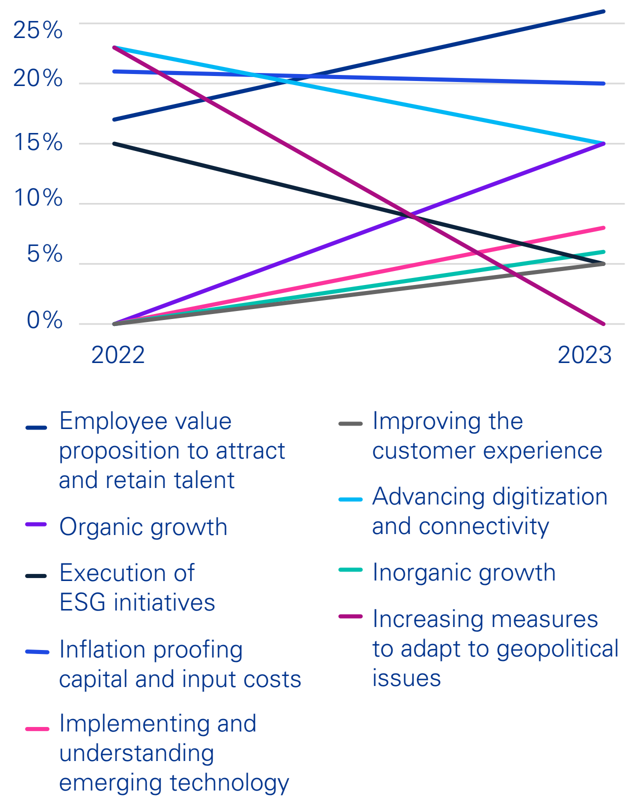
Attracting and retaining talent has risen to the top of asset management leaders' operational priorities, with **26 percent** of respondents mentioning it in 2023 compared with 17 percent last year. The sector still struggles with gender balance with women making up just **11 percent** of the 80 CEOs in this research. Most respondents agree that they have responsibilities to drive greater social mobility (**81 percent**) and that gender equity among senior executives would help to meet growth ambitions (**79 percent**).

Inflation proofing capital and income costs was the second most-cited operational priority, chosen by **20 percent** this year. Higher inflation can make some asset classes including real estate, infrastructure and private equity more attractive as a hedge, but has significant consequences for general economic health. Increasing measures to adapt to geopolitical issues dropped from the joint top answer from CEOs in 2022 to zero responses in 2023, possibly due to the timing of last year's survey a few months after the start of conflict in Europe, while this year's research took place shortly before recent events in the Middle East.

"Attracting and retaining talent is a major issue. One approach is to clarify the positive role that asset management and capital can play in society. How do you get to net zero, how do you get transition of companies and economies without capital and asset management? That message doesn't always get amplified but it links to the importance of underlying purpose."

Andrew Weir
Global Chair, Asset Management,
KPMG International

How operational priorities to achieve growth have changed from 2022 to 2023



Source: KPMG 2023 CEO Outlook, KPMG International, October 2023.

One of the biggest shifts between 2022's research and this year is seen in the increasing interest in mergers and acquisitions, with **58 percent** now saying they have a high appetite and those with low appetite declining from 17 percent last year to **6 percent** in 2023. The Asia-Pacific region is experiencing increased demand for asset management platforms and other emerging markets are relatively new to asset management, both driving appetite for acquisitions. In developed markets there are pressures for companies to increase scale and mergers offer a way to achieve this, although they need to be undertaken with care so that they are successful in increasing value.

KPMG research also found that asset management CEOs approve of other kinds of collaboration, with **74 percent** agreeing that a collaborative leadership style with shared management and operational responsibilities enables greater success. Even more, **78 percent** expect to take public stands on issues for their organization that may conflict with their own beliefs.

CEOs with a high appetite for mergers and acquisitions

58% (2023)

40% (2022)

Source: KPMG 2023 CEO Outlook, KPMG International, October 2023.

Technology and digitization

Asset management CEOs put advancing digitization and connectivity at the top of their operational priorities list in 2022 but it has fallen to joint third in 2023. However, the research shows that **58 percent** of CEOs are investing capital in new technology, the same as last year.

Cyber crime and cyber insecurity moved to the top of the list of concerns that could negatively impact organizational prosperity over the next three years, with **81 percent** of respondents seeing this as a pressing issue. More specifically, **28 percent** feel their organizations are under-prepared for a cyber attack although **62 percent** say they are well-prepared. The most common reason for under-preparedness, mentioned by **45 percent**, is the increasing sophistication of new developments such as with generative artificial intelligence (see next section) as a contributing factor with vulnerable legacy systems or infrastructure mentioned by **27 percent** and shortages of skilled personnel by **14 percent**. Although deliberate cyber attacks gather a lot of attention, many data breaches occur as a result of organizational mistakes or poor practice, making data governance and security vital.

Technology has allowed many staff to work remotely, but the research shows that most CEOs in the sector believe that employees should come to the office and are likely to be rewarded if they do so, such as with promotions or salary increases. Only **10 percent** expect the working environment for traditionally office-based roles to become fully remote over the next three years, with **49 percent** expecting work to be carried out in offices and **39 percent** predicting a hybrid approach.

CEOs who say their organization is under-prepared for a cyber attack

28% (2023) ← **21%** (2022)

CEOs who say that employees are likely to be rewarded if they work in offices rather than remotely

Source: KPMG 2023 CEO Outlook, KPMG International, October 2023.

Generative AI

Generative AI (artificial intelligence) is seen as a top investment priority by **69 percent** of asset management CEOs in the survey with just **21 percent** disagreeing, following the high-profile launches of services that generate text and images based on user requests. Respondents have a wide range of hopes for the benefits it can bring, led by new product and market growth opportunities (see list).

However, they also have concerns about the challenges of implementing generative AI, with ethical issues seen as highly challenging by **61 percent** and cost of implementation by **57 percent**. Notably, of eight options offered CEOs see job redundancies as the least challenging impact of generative AI, with only **17 percent** calling it highly challenging, **74 percent** somewhat challenging and **9 percent** not at all challenging.

Lack of regulation was mentioned by **51 percent** of respondents as being highly challenging for generative AI, with **75 percent** agreeing with the idea that regulations should mirror those for climate change commitments. CEOs are also concerned about the technology's impact on cyber security, with **81 percent** seeing it is a double-edged sword that may help detect cyber attacks but also provide adversaries with new ways to mount them.

CEOs also see generative AI as a technology that will take time to provide a return on investment, with **69 percent** saying this will take more than three years after implementation.

While there is incredible potential for generative AI in asset management, the technology is at an early stage and as a result strong governance is very important. Organizations need to have a strategy and a governance framework for its use and ensure it is discussed at board level.

"KPMG's research shows that asset management leaders are keen to explore the opportunities that generative AI offers but rightly have concerns about its implementation. This still-developing technology relies on the data it uses for training, basing its output primarily on patterns in this material rather than rules, so the quality of both needs careful monitoring. This should be part of strong governance of generative AI's use that includes board level discussions."

James Suglia
Global Head of Asset Management Advisory, KPMG International

Top benefits of implementing generative AI in organizations

Benefit	2023
New product and market growth opportunities	23%
Fraud detection and cyber attack response	18%
Increased efficiency and productivity through automating routine operations	16%
Increased profitability	14%
Faster data analysis	11%
Job creation	9%
Increased innovation	6%
Personalized services/customer engagement	4%

Source: KPMG 2023 CEO Outlook, KPMG International, October 2023.

Key recommendations

- Asset management CEOs need to be resilient and agile, for example by planning and stress testing based on different scenarios, to cope with risks including political uncertainty.
- ESG has become a strategic issue which is fundamental to asset management brands and reputations, and CEOs must expect high levels of scrutiny over their decisions.
- While many asset managers appreciate the importance of strong governance and environmental issues including climate change, the S of ESG — benefit to society — needs more attention.
- Clarifying the positive role that asset management can play in society is one way to address challenges in attracting and retaining talent.
- Generative AI has incredible potential as a technology but given its risks it will require strong governance and board level oversight.

Methodology

This report draws on interviews with 80 asset management leaders for KPMG's cross-sector 2023 CEO Outlook report, which included a total of 1,325 people.[1] Its research was carried out in August and September with CEOs leading organizations with revenues of at least US$500 million based in Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, the United Kingdom and the United States.

In the asset management research the two largest sub-sectors were wealth management, with 39 percent of respondents, and private equity (or similar direct investors) with 26 percent. The best-represented countries based on organizational headquarters were the US, the UK, China and India with these four countries making up two-thirds of responses.

[1] KPMG 2023 CEO Outlook: https://kpmg.com/xx/en/home/insights/2023/09/kpmg-global-ceo-outlook-survey.html

Contacts

Els Verhoyen
Director, Risk and Regulatory | Advisory
KPMG in Belgium
E: everhoyen@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/be

Designed by Evalueserve.

Publication name: Asset management CEO Outlook 2023
Publication number: 139149-G
Publication date: December 2023