Growing in a Turbulent World

Finding the next growth engine in APAC asset management

December 2023

Executive Summary

This report takes a broad look at the asset management landscape across the Asia Pacific (APAC) region, including the key characteristics of different markets, recent deals and partnerships, and opportunities for global firms.

Generally speaking, APAC is an attractive and diverse region with many opportunities for asset managers. In terms of APAC assets under management (AUM) the Chinese Mainland is by far the largest market, although other markets also have significant levels of AUM.

Growth Opportunities

AUM across the region has seen rapid expansion over the past decade, and there is still scope for growth. The population has a large pool of savings, of which a relatively small proportion is currently managed by asset managers. At the same time, the APAC region is very diverse, and asset management firms should carefully consider their strategies before moving into any new markets.

The APAC region has a balanced mix of institutional and retail investment, with variations across different markets, and there is potential for growth in both segments. Growth in institutional investment is largely being driven by the “new” segment, particularly insurance and defined contribution pensions. For retail, the mass-affluent and affluent segments have been significant drivers of growth.

Another benefit for asset managers in APAC is higher and relatively stable margins. Despite higher cost margins -- attributed to high regulatory set-up fees and investment in digital distribution -- APAC profitability has consistently outpaced North America.

Evolving Market

Retail distribution across APAC markets largely remains in the hands of large intermediaries, with fund products distributed through banks or securities firms, which enjoy strong market presence and established distribution networks.

However, the landscape is shifting in response to market demands and emerging technology. Many major asset managers are leveraging digital distribution partnerships to give them greater access to retail investors. Other firms are developing their in-house capabilities including building scalable digital infrastructure.

Global asset managers are well established in most of the developed markets across the region. Opportunities for new market entrants are most clear in emerging markets, including Malaysia, Thailand, Indonesia and Vietnam, where major firms have yet to establish a significant presence. The “future giants” of China and India also offer large populations with growing asset management needs.

Inorganic expansion through M&A or other partnerships provide an option for global firms to tap into local experience and an established client base when they are seeking to expand into new markets or to grow market share in APAC.

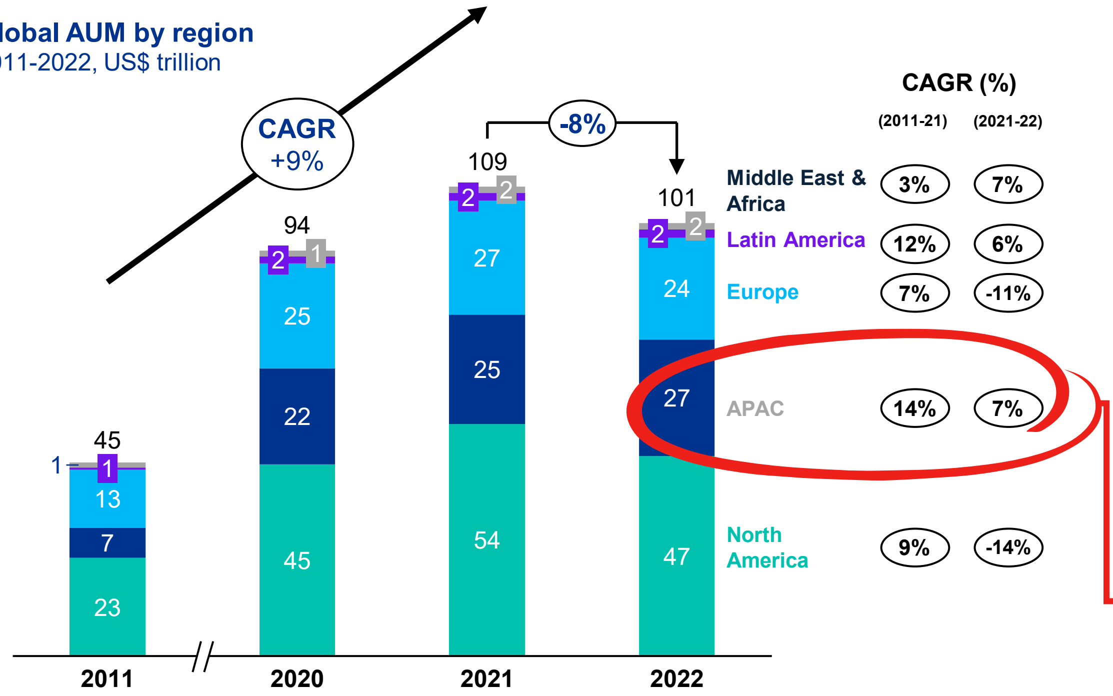
APAC Market Overview

Market has seen strong growth with significant opportunities remaining

APAC is the fastest growing region globally

Total AUM of the asset management market in APAC reached US$27.2 trillion in 2022, exhibiting positive growth despite turbulent market conditions. The region also saw the highest 10-year CAGR of 14% (from 2011-2022), outpacing the global average of 9%. The rapid growth in net flows in the region has largely been driven by economic growth, wealth creation and regulatory reforms.

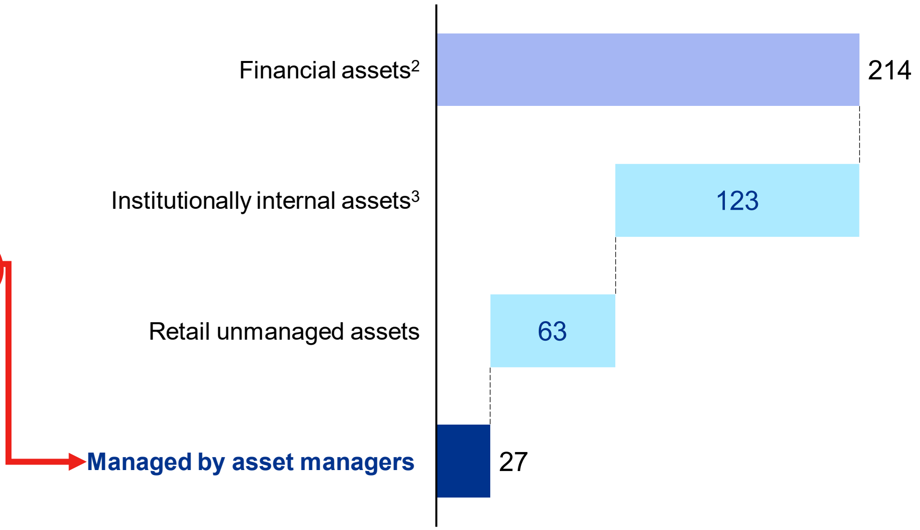
Global AUM by region
2011-2022, US$ trillion



Growing wealth and relatively low penetration

The Asian population maintains a **large pool of savings**, driven by higher interest rates and uncertainty about future income across developing and transition markets. Assets managed by asset managers represents roughly 13% of total investable assets within the region, providing scope for significant growth.

Investable assets in APAC
2022, US$ trillion



Note: [1] 2022 figures forecasted based on researched growth with exception of APAC. [2] Financial assets does not include physical or tangible assets such as real estate. [3] Institutional internal assets are held by corporations that are outside of the asset management industry

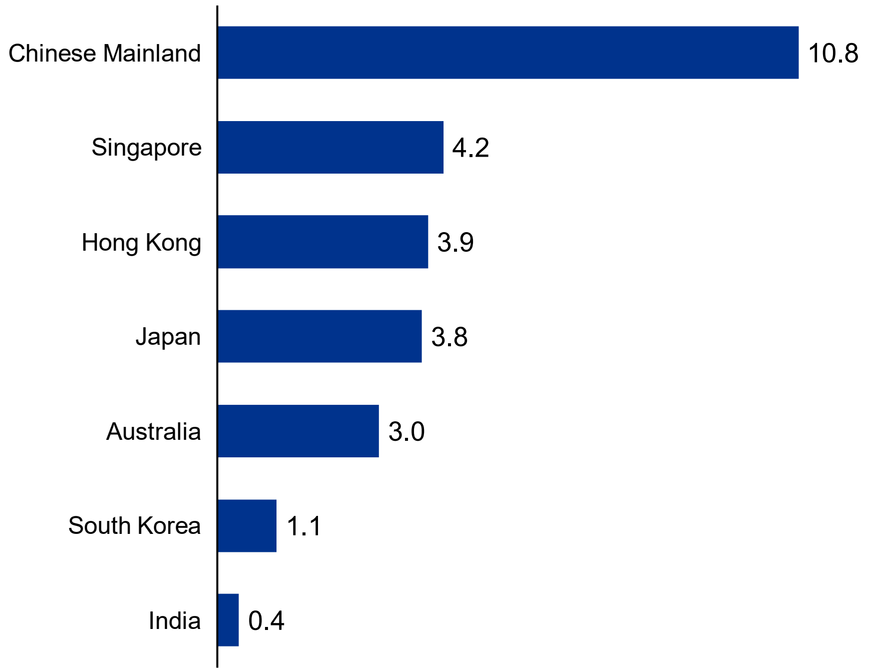
Source: Preqin; AMAC; MAS; Nomura Research Institute; Korea Capital Market Institute; Australian Bureau of Statistics; KPMG Analysis

APAC Market Overview

Chinese Mainland is by far the largest market in terms of AUM

APAC AUM breakdown by jurisdiction [1]

2022, US$ trillion



Market-specific highlights

Chinese Mainland

Balanced mix of retail and institutional investors with **mutual funds** as the most dominant product (37.2% of total AUM as of 2021). Growth in retail contributions has been supported by China's strengthening economy.

Singapore

Retail growth has accelerated due to the expansion of online platforms and increasing family office presence in the market (from around 100 to 800 over the past five years). However, institutional investors account for the bulk of growth in Singapore's AUM.

Japan

Retail growth is supported by **regulatory promotion of investment trusts** by lowering taxes and minimum required levels of investment (primarily open-ended funds). Institutional investment through pension funds remains as the largest contributor to market AUM. Japan's Government Pension Investment Fund contributes roughly 40% of total AUM at US$1.5 trillion.

Australia

Retail investment has increased compared to pre-pandemic levels. However, institutional investment in Australia continues to dominate, driven by **superannuation funds** (around US$2.3 trillion AUM, representing roughly 77% of total AUM).

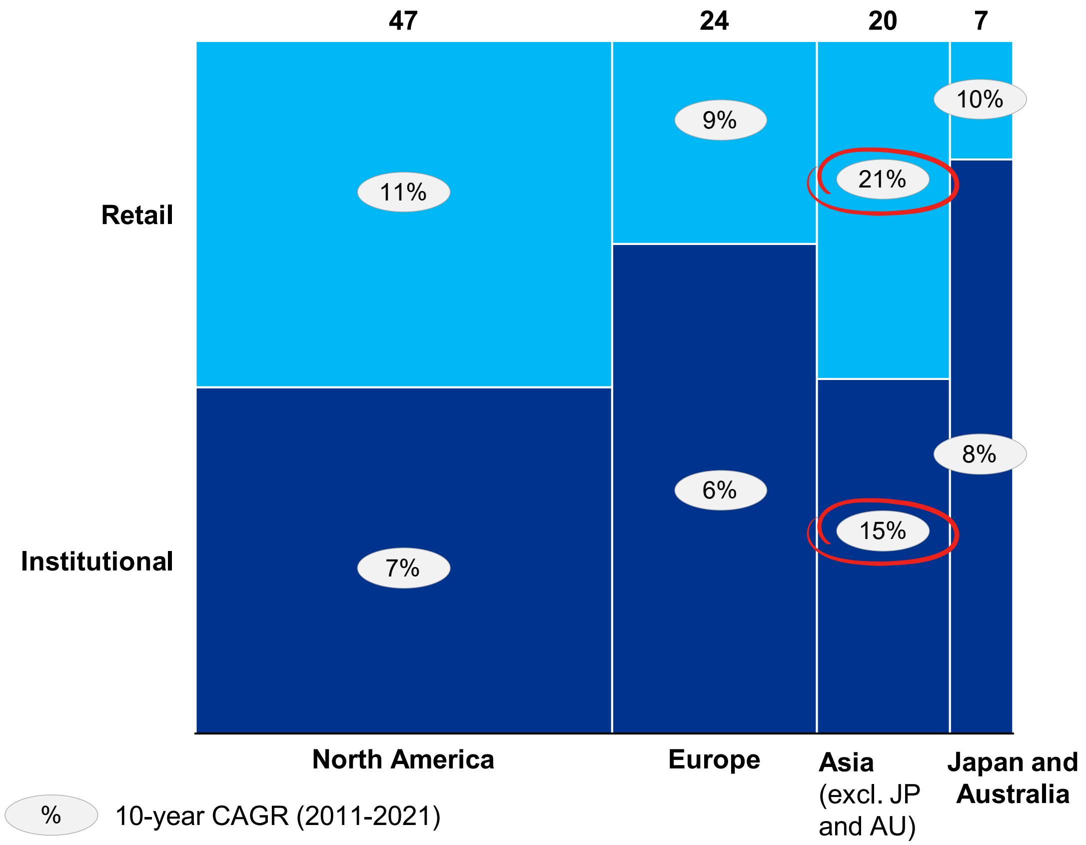
Note: [1] APAC market sizing based on identified major markets and is not exhaustive of all APAC markets
Source: Preqin; AMAC; MAS; Nomura Research Institute; Korea Capital Market Institute; Australian Bureau of Statistics; KPMG Analysis

Investor Segments

Growth in APAC asset management is driven by both retail and institutional segments

Assets under management[1]

US$ trillion, by client segment, by market, 2022



Growing wealth and adoption of digital distribution in the APAC region has driven increasing retail contribution

Growth of the middle and upper classes in APAC is creating new opportunities for asset managers to capitalise on the growing wealth within the region.

Total wealth growth in Asia in the 11 years to 2021 has outpaced other regions by a considerable margin[2]. This has largely been driven by the mass affluent and affluent segments.

Significant growth in digital transformation and development of new digital platforms has also enabled retail investors to gain access to a wider variety of product offerings.

Institutional AUM in the region has seen growth largely driven by "new" contributors

Legacy institutional investment continues to be a substantial contributor to regional AUM with significant assets managed by sovereign wealth funds and defined benefit pension funds, particularly in Japan and China.

However, "new" institutional investment has seen substantial growth, with increasing insurance penetration and as a result of ageing populations making a larger contribution to defined contribution pensions.

Note: [1] Latin America, Middle East and Africa represents smaller markets and lower compared to most included key markets [2] 11-year CAGR from 2011-2022
Source: BCG; IMF; Board of Governors of the Federal Reserve System; Viewtrade; Forbes; Oliver Wyman; Australian Bureau of Statistics; KPMG Analysis

Institutional growth being driven by insurance and defined contribution pensions

Legacy Institutional

Sovereign Wealth Funds

Sovereign wealth funds in Asia have the highest AUM compared to their global counterparts

Sovereign wealth fund AUM in the region reached US$4.3 trillion in 2023, with funds increasing direct investments and co-investment opportunities to strengthen internal capabilities and reduce costs.

Endowment Funds

APAC endowment funds are smaller than US counterparts but have a similar structure

Although the largest endowment funds in APAC remain relatively smaller than in the US, they largely follow large-scale US endowment allocations in focusing on alternatives. For example, the Yale endowment allocates around 78.5% to alternative assets.

Defined benefit pensions

Defined benefit pensions in APAC are less common than defined contribution schemes

Defined benefit pensions manage substantial assets. In APAC, they are mostly present in Japan and China.

"New" Institutional

Insurance Companies

Insurers plan to increase allocations in alternatives amid turbulent market conditions

APAC insurers anticipate growth in insurance premium income, but are faced with the challenge of generating returns in a difficult market environment: APAC equity and bond performance declined -19.7% and -4.4% respectively in 2022. Insurers have indicated their intention to significantly increase allocations to private equity and private debt as a way to reduce risk and increase returns.

Insurers in the region predominately manage assets in-house or outsource to intra-group subsidiaries. There are relatively few cases of insurers outsourcing to external asset managers.

Defined contribution pensions

Defined contribution pensions are common with growth in alternative allocation

APAC pensions saw higher growth than the global average in the five years to 2022 (around 8% vs 6.5%, respectively)[1], driven by ageing populations and growing workforce contributions. Defined contribution pensions dominate in the majority of markets in the region.

The average outsourcing rates for APAC pensions increased from 30.6% in 2017 to 36.8% in 2021, with increasing allocations in alternatives (0.8% increase in alternatives from 2021-2022).

Note: [1] 5-year CAGR from 2018-2022
Source: Preqin; Statista; Cerulli; HKMA; GIC; Thinking Ahead Institute; Quinlan & Associates; AIA; Daichi; Sumitomo Life; Lion Global; QBE; Yale Endowment Model; KPMG Analysis

Investor Segments

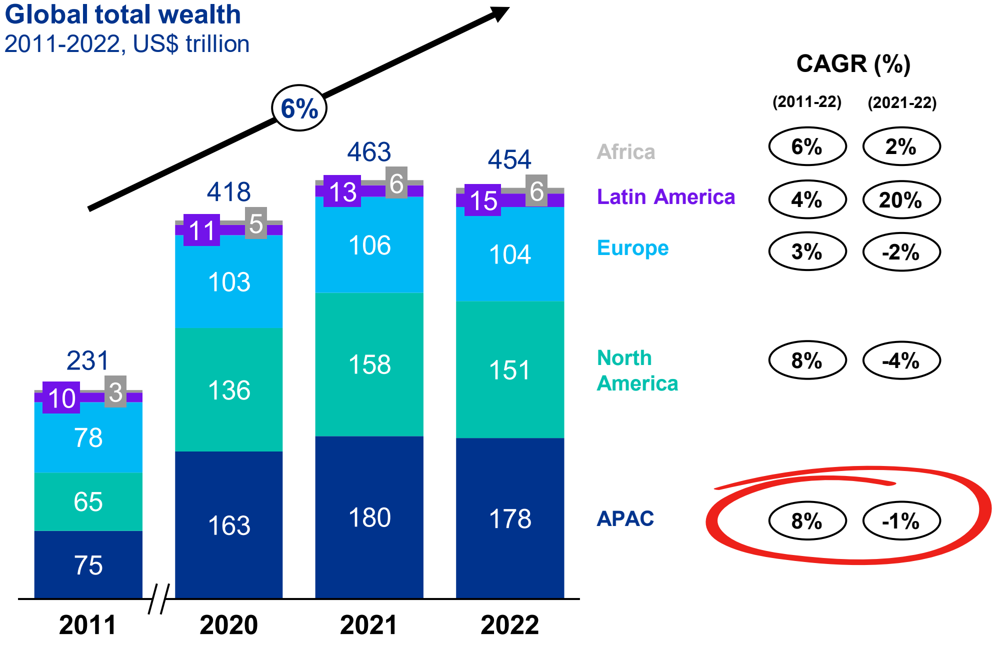
For Retail, the emerging middle class is the core growth engine

APAC has the highest total wealth globally

Total wealth in APAC reached US$177.8 trillion in 2022, making up 39.2% of global wealth. This has largely been driven by growth in the affluent and mass-affluent segments. Asset allocation in Asia favours non-financial assets, principally housing and land, rather than financial assets (56% vs. 44%, respectively).

The growth rate in APAC over the 10 years to 2022 was also the highest globally.

Global total wealth
2011-2022, US$ trillion



Note: [1] 7-year CAGR from 2015-2022
Source: World Wealth Report 2023, Mckinsey, KPMG analysis

Opportunities in affluent and mass-affluent segments

APAC has seen strong economic growth, supported by the region's evolving regulatory landscape, which has enabled the development of an increasingly open business environment. While North America saw the highest growth rate in the HNWI segment in the seven years to 2022 (6.3%) compared to Asia (5.1%) [1], anticipated growth in Asia's affluent and mass-affluent segments will create new opportunities for asset managers.

APAC household financial wealth	AUM in 2021 (US$ billion)	Estimated AUM in 2026 (US$ billion)	Estimated CAGR, 2021-2026 (%)
UHNW (>25M)	~2,200	~3,250	8
HNW (1M-25M)	~2,900	~4,000	7
Affluent (250,000-1M)	~1,800	~3,000	11
Mass-affluent (100,000-250,000)	~950	~1,750	13

Industry Economics

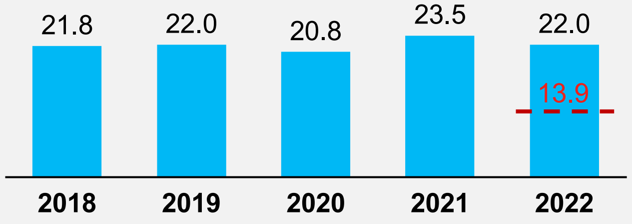
APAC asset management has experienced higher and relatively stable margins

APAC asset management profitability

(Bps, %, 2018-2022)

Operating Profit/AUM [1]

Bps



Profit margin,

% of revenue

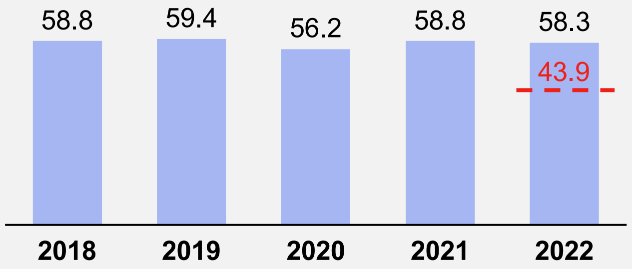
37	37	37	40	38

APAC is an attractive market with high margins

Profit as a share of AUM (bps) and profit margin (%) remains **higher than the North America average** in 2022 (13.9bps and 32% respectively)

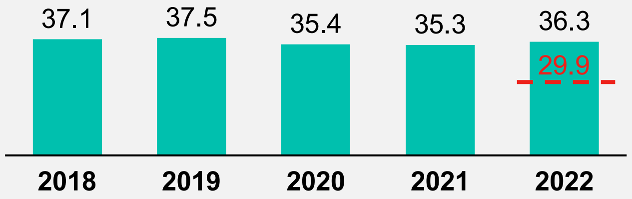
Revenue/AUM [2]

Bps



Operating Costs/AUM

Bps



---- North America average

APAC revenue margin remains high with a preference for active investment strategies

APAC **revenue margins** (bps) have consistently **outperformed** North America due to the preference for **active investments** (58.3bps vs. 43.9bps in 2022).

Despite APAC being a predominately **active investment** focused region, mature markets such as Australia have begun shifting towards passive strategies.

Despite a higher cost base, APAC outperformed North America in terms of profitability

APAC experiences higher **cost margins** (bps of AUM) than in North America (36.3bps vs. 29.9bps in 2022).

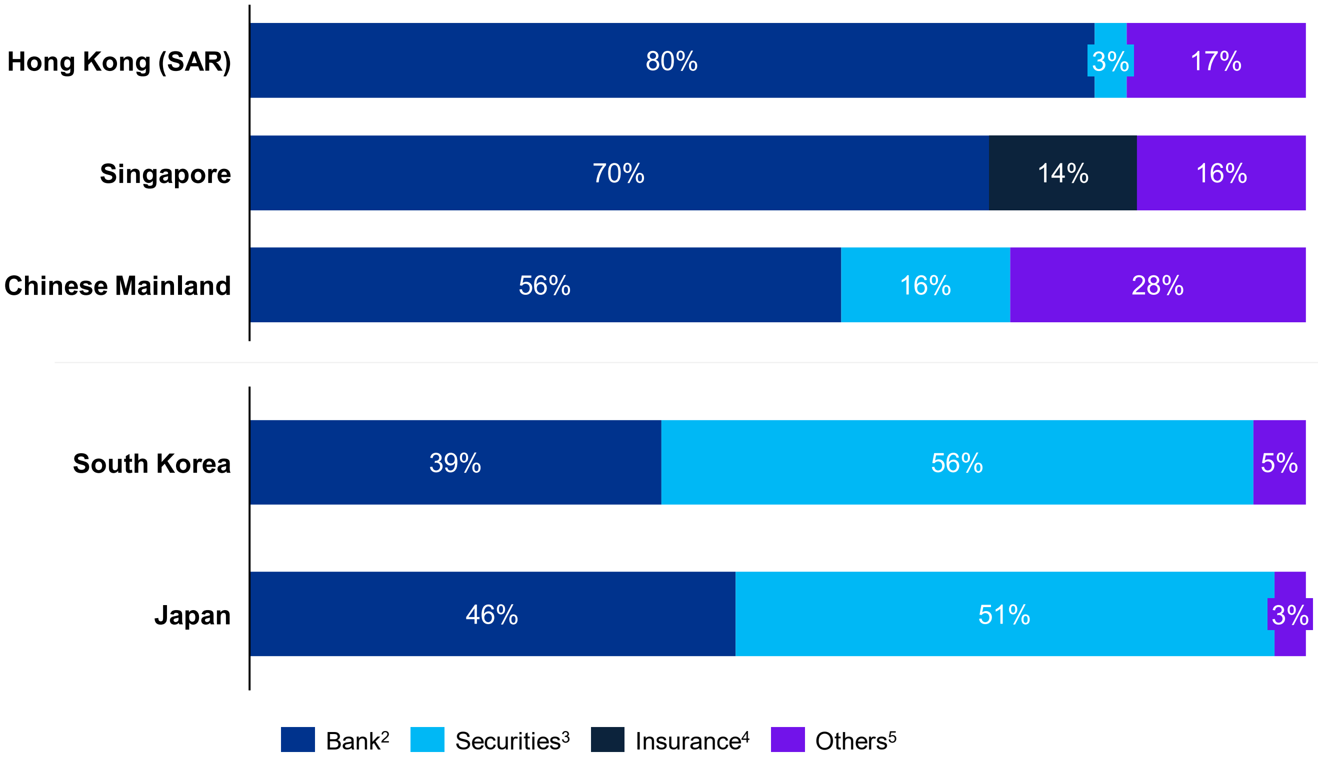
The key drivers of these higher cost margins include **high regulatory set-up costs** and **investment in digital platforms**.

Note: [1] APAC profitability for 2022 is forecasted based on AUM and average revenue and profit margins from 2018-2021. [2] Revenue based on management fees excluding impact of performance fees and carried interest.
Source: Mckinsey; BCG; Statista; KPMG Analysis

Distribution Channels

Retail distribution remains mostly in the hands of large intermediaries

Retail Distribution Channel across APAC by market[1]



Key Findings

Distribution dominated by banks

Fund products in Hong Kong (SAR), Singapore and the Chinese Mainland are largely distributed through banks. Across these markets, banks enjoy **high penetration rates, strong existing presence**, and have **established retail distribution networks**.

Banks have also leveraged **digital channels** to deliver comprehensive services, enabling access to a broader market of retail investors.

Distribution dominated by securities firms

In Japan and South Korea, the majority of fund products are distributed through **securities firms**, with household names like **Nomura** and **Samsung** dominating their respective markets.

In **Japan**, commercial banks are only allowed to engage in limited investment banking activities. Banks are generally **prohibited from engaging in securities business** activities unless a subsidiary or affiliate is established.

Note: [1] Data from 2020. [2] Banks include in-house digital platforms. [3] Securities include securities firms or intermediaries that specialize in purchase, sale and brokerage of securities. [4] Insurance includes insurance companies that distribute funds through investment-linked plans. [5] Others include independent fund distributors, futures companies, direct sales from asset managers and online channels.
Source: Investment associations and financial regulators in Hong Kong, Singapore, China, Japan, and South Korea; KPMG Analysis

Distribution Channels

Digital distribution partnerships expand access to retail investors

Investors in Asia are enthusiastic adopters of digital channels. To serve this demand and increase their client base, several major asset managers in the region have set up partnerships with digital specialists, or focused on developing their in-house digital capabilities.

Key drivers of digital distribution

In 2021, 32% of investors in **APAC** used **at least three digital channels** to manage their investment accounts. This is double the figure in **North America** (16%).

The current **B2B2C** fund distribution model incurs **higher costs** and **longer redemption time** due to the number of intermediaries in the value chain.

With growth in the **retail segment**, there is increasing interest and demand for **digital channels** to broaden the reach of asset managers and enhance retail investor accessibility.

Partnership examples and in-house technology applications

Investment Platforms	**MUFG Innovation Partners ✖ Endowus**	**MUFG Innovation Partners** and **Citi Ventures** invested in Singapore-based wealth management platform **Endowus's** Series C round. VC participation has decreased with inflated valuations as a result of growing strategic investments sourced from banks and asset managers.
Technology Platforms [1]	**Nomura ✖ Line**	**Nomura** and **Line** formed a joint venture, **Line Securities** to provide digital financial services (securities brokerage and investment advisory). In 2023, Nomura and Line restructured the joint venture, with Line focusing on foreign exchange margin trading, transferring stock trading and brokerage management to Nomura.
Virtual Banks [2]	**Allianz Global Investors ✖ WeLab Bank**	**Allianz Global Investors** invested in and partnered with **WeLab Bank**, a Hong Kong virtual bank, to provide digital wealth management services including robo-advisory and fund trading, backed by its investment management expertise.
Traditional Banks [3]	**Bank of China**	**Bank of China** launched an **in-house digital platform** for internet banking and mobile banking that allows investors to conduct fund subscription, switching and redemption. Users can view transactions, profit and loss status of individual funds, as well as the overall performance of the portfolio.

Note: [1] Technology Platforms refer to third party non-asset management platforms including tech services platforms, internet platforms, social networking platforms, digital payment platforms which distribute funds. [2] Virtual Banks refer to virtual banks which distribute funds. [3] Traditional Banks refer to digital platforms owned in-house by traditional banks.
Source: Company Websites; Refinitiv; KPMG Analysis

Competitor Landscape

For global firms, opportunities lie in "future giants" and smaller emerging markets

APAC asset management is a "winner-take-all" market, where the majority of AUM is captured by a small number of players. The key to success is not just entering the market but gaining significant market share. Global firms can tap into emerging markets through sub-advisory arrangements. Looking ahead, the relaxation of restrictions on foreign asset managers in a number of of these markets is expected to present new opportunities.

Distribution only | No Presence | Distribution and manufacturing

In search for the next engines of growth

			Asia Wealth Hubs		*Mature Markets*				*Future Giants*		*Emerging Markets*			
Global Top 10 AM	**Global AUM[1] (US$ T)**	**APAC AUM[1] (US$ T)**	**HKG**	**SGP**	**AUS**	**JPN**	**TWN**	**KOR**	**CHN**	**IND**	**MYS**	**THA**	**IDN**	**VNM**
Blackrock	8.6	0.67	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution only	Distribution only	Distribution and manufacturing	Distribution and manufacturing	Distribution only	No Presence	No Presence	No Presence
Vanguard	8.1	N/A	No Presence	No Presence	Distribution and manufacturing	No Presence	No Presence	No Presence	Distribution only	No Presence	No Presence	No Presence	No Presence	No Presence
UBS Asset Management	4.0	0.31[2]	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution only	No Presence	No Presence	No Presence	No Presence	No Presence
Fidelity	3.9	N/A	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	No Presence	No Presence	No Presence	No Presence	No Presence
State Street Global Advisors	3.5	N/A	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	No Presence	Distribution only	Distribution only	Distribution only	No Presence	No Presence	No Presence	No Presence
Goldman Sachs Asset Management	2.6	0.19[3]	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution only	Distribution and manufacturing	Distribution and manufacturing	Distribution only	No Presence	No Presence	Distribution only	No Presence
J.P. Morgan Asset Management	2.5	0.21	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution only	Distribution only	Distribution only
Capital Group	2.2	N/A	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	No Presence	No Presence	No Presence	No Presence	No Presence	No Presence	No Presence
Amundi	1.9	0.04	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution only	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	No Presence	No Presence
PIMCO	1.7	N/A	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	Distribution and manufacturing	No Presence	Distribution only	No Presence	No Presence	No Presence	No Presence	No Presence

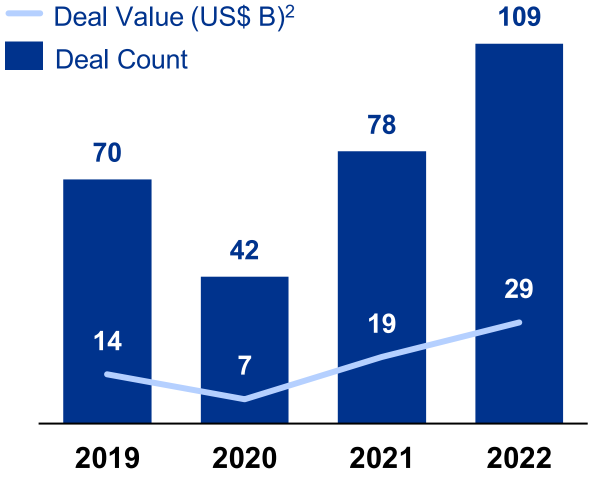
Note: [1] AUM sources based on latest data as of 2022. [2] Based on APAC 2021 baseline and 2022 global company growth. [3] Assets Under Supervision – presence in China through ICBC JV.
Source: Company Websites; KPMG Analysis

Mergers and Acquisitions

M&As could help global managers to tap into the market potential

Although the number of deals slowed during Covid, activity has picked up again as major global asset managers seek to access the growing opportunities in markets across the APAC region through acquisitions and strategic partnerships.

Total deal count and deal value per year in APAC[1]



Key highlights

Global and APAC M&A activity decreased significantly in 2020 due to Covid-19, with activity increasing from 2020-2022, led by recovering economies.

In 2021, the biggest driver of deal value growth was China Huarong Asset Management's bailout (US$6.6 billion).

Deal activity in 2022 was driven by domestic consolidation in the Chinese Mainland and smaller deals in Australia.

Key APAC M&A Transactions

Buyer	Target	Seller	Deal Description
MUFG	← CFSGAM — — US$ 2.8B →	Commonwealth Bank	**APAC Asset Manager Expansion** In 2019, **MUFJ Trust and Banking Corporation** (MUFG) acquired **Colonial First State Global Asset Management** (CFSGAM) from Commonwealth Bank of Australia. This acquisition aligns with MUFG's regional expansion strategy.
Allianz Global Investors	— US$ 75M →	Welab Bank	**Foreign Asset Manager Investment** In 2021, **Allianz Global Investors** (AGI) digital investment unit, Allianz X invested in **WeLab.** **AGI** invested in **WeLab** to grow its partner network in the fintech space and to capitalise on the digital investment needs of investors in Asia.
Value Partners Group	29.99% Shares ← → 29.99% Shares	Aldiracita	**Domestic Asset Manager Equity Exchange** In 2023, **Value Partners Group** and **Aldiracita Group** established a strategic partnership through mutual equity purchases.

Note: [1] Number of completed deals of all firms in [fund management, venture capital/private equity, sovereign wealth funds, banking and investment broking] acquiring APAC firms in [fund management, venture capital/private equity and sovereign wealth fund], including Asia-Pacific minority stake. [2]Number of deals with undisclosed value: 2019:17; 2020:12; 2021: 23; 2022: 37
Source: Mergermarket; Company Websites; KPMG Analysis

Final Remarks

Strategic questions for asset managers

There are huge opportunities across the diverse APAC market, but also challenges. Asset management firms will need to carefully consider their own capabilities as well as the landscape in their target markets before deciding where to play and how to win.

Defining factors of APAC markets	Where to play?	How to win?
High growth and profitability	What is your ambition for Asia's asset management industry?	Is your company ready to explore a new business model in Asia?
Varied growth in both passive and active investment strategies across markets	Which market, client segment and product are you targeting?	What new capabilities do you need to build to serve your target market?
"Winner-take-all" market with dominant players capturing majority market share	What distribution channels are you tapping into? Is this aligned with the future growth potential and your strengths?	What are your core capabilities and how do they cater to target segments?
Market-specific regulatory restrictions pose a challenge to new market entrants	What are the opportunities for organic or inorganic growth for you?	How can you adapt existing business models to regional markets?

Meet the Authors

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