



KPMG — Asset Resiliency Podcast

Unprecedented measures: Asset management in the age of uncertainty

November 2023

Announcer

Hello, and welcome to “Global AM Perspectives,” a new KPMG podcast series for asset managers, fund managers and investors around the world. Through discussions with leaders from KPMG and major market players, this series will include short episodes that look at some of the most pressing issues, emerging trends and market opportunities within the asset management, real estate and private equity industries.

In this episode we discuss how unprecedented times call for unprecedented measures and how asset managers are preparing for what comes next and the impact on the asset management industry that has been significant.

We are delighted to be joined by Chrystelle Veckmans, Head of Asset Management EMA region and partner in KPMG Luxembourg and Dean Brown Global Head of Asset Management Consulting for KPMG in the UK to discuss some further findings and steps asset managers can take to succeed.

With that Chrystelle and Dean on behalf of our listeners I would like to welcome you to the podcast.

Chrystelle if I can come to you first what are some key trends you are seeing asset managers are faced with when preparing for what comes next?

Chrystelle Veckmans

We see that asset managers are under pressure. First market fundamentals are under considerable stress. Central banks are raising interest rates aggressively. High inflation and expectation of a recession as pushed down asset valuations. We have seen equity markets and bond markets tanked at the same time and the clear shift of funds into cash and deposit accounts. For many managers, that means management fees are under pressure.

Second, there is a crisis. There is a crisis of confidence among investor we have not seen in decades. Their behaviours are changing very quickly. They are moving to managers they trust. They are looking for the security of money market funds and private market investment. Investors want transparency and more and more to make an impact with their investment. But what makes the current situation so challenging is that all of this is happening in the middle of a huge global effort to make the world economy greener and more sustainable.

If we add the destructive power of emerging technology such as generative AI, blockchain, tokenization, it seems clear that the fundamentals of the industry are changing and industry is facing significant disruption.

Announcer

And Chrystelle, how can this translate into opportunity and stakeholders value?

Chrystelle Veckmans

Some asset managers may view this period as a massive risk. Others see it as an opportunity. The opportunities may look quite different. For the biggest players, the crisis of confidence amongst investors has led to steady inflows. These players are orientated around market demands and recent trends focusing on ETFs and private markets. They are also developing new offerings and capabilities, thanks to data analytics and a lot of cash to invest.

Fundraising may be difficult for smaller players, but they have also big opportunities to stand out in this current market reorganization. Investors are looking to personalize service. They want specialist capabilities. They expect their money to be invested with purpose and values. Smaller managers and those operating a niche could create a compelling value proposition for investors.

Announcer

Thanks, Chrystelle. Dean, coming to you. What can asset managers firms focus on to be successful?

Dean Brown

So for me, it's quite straightforward i.e the most successful asset managers will be those that re-align their business around the three principles of value clients and purpose. So firstly, in terms of value, we need to be conscious that value means different things to different people. So for some it's all about preserving financial value, creating a higher rates of return and reducing costs. For others, value may be about trust, confidence and relationships, understanding what value represents for specific clients will be critical. Secondly, in terms of clients, a client centric approach is to key to success. Firms need to understand the needs and preferences of their clients and tailor investment strategies and services accordingly. Ultimately, if you understand your clients, you will then understand your opportunities.

And then lastly, purpose. Investors are increasingly interested in what motivates the firms that manage their capital so to are employees. Being able to articulate your purpose, particularly within the context of the drive to net zero and decarbonization, will allow asset managers to more clearly articulate their value propositions to their clients.

Announcer

Thanks, Dean. And what are some suggestions asset managers can do to prepare for changes coming in the future?

Dean Brown

So if asset managers want to be ready for the changes coming in the future, they should definitely consider these five steps. So firstly, connect with clients, clients needs and expectations are changing rapidly, as are their investment goals. So consider how you can get closer to your client to better identify and predict future trends.

Think about the types of products and solutions that they may want in the future, as well as how they will want to interact with their asset manager and what type of information they may require. Secondly, articulate your values and purpose. Climate change, as mentioned before, is one of the world's biggest challenges and asset managers are in a unique position to use their investment decisions to achieve real world impact, and drive positive change.

Also, those who articulate their purpose to society and investors can really differentiate in a highly competitive and value driven market. Third, and a big favourite of mine, communicate continuously. Communication is a key enabler of purpose and client centricity. Gone are the days of quarterly investor communications. Today's leading asset managers are continuously communicating with their stakeholders on a wide range of topics through various social and digital channels.

And that in turn, is helping them build trust with their customers, employees and also regulators. Fourthly, reassess your business and operating models. The shift in client expectations and reduction in profit margins, that we have seen over the last couple of years is causing business

and operating models to creak. That, combined with a clear trend towards value based products and services centered around clients, suggests that new business models will be needed.

Asset managers should be looking for opportunities to improve operational efficiency, business flexibility in their operating model, particularly around technology, data, operational processes and third party outsourcing. And then lastly, leverage existing technology and embrace new technology like AI, machine learning and data analytics to make better decisions and improve the overall client experience.

Also, firms need to consider carefully how technology, culture and people intersect to ensure that technology investments are creating a positive impact and value for both clients and employees. Ultimately understand your future stake model and start developing your technology.

Announcer

Thanks, Dean. So, Chrystelle, how can KPMG support its clients with this.

Chrystelle Veeckmans

Unprecedented times call for unprecedented measures. We at KPMG are supporting our clients in their transformation journey to widen disruption. We know that maintaining the status quo is not an option. The only way to navigate the rapidly changing environment is to start making radical change. As Dean said, those who do so with value, clients and purpose at the core will likely come out on top.

Announcer

Chrystelle that's great. Thank you Chrystelle and Dean for taking the time to join us on the podcast today. It has provided great insight and key take aways for our listeners.

To let us know what you think about this episode, or if you have any ideas for future episodes, please email us at assetmanagement@kpmg.com. And remember, you can find our latest publications, articles and other material on kpmg.com/assetmanagement.

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