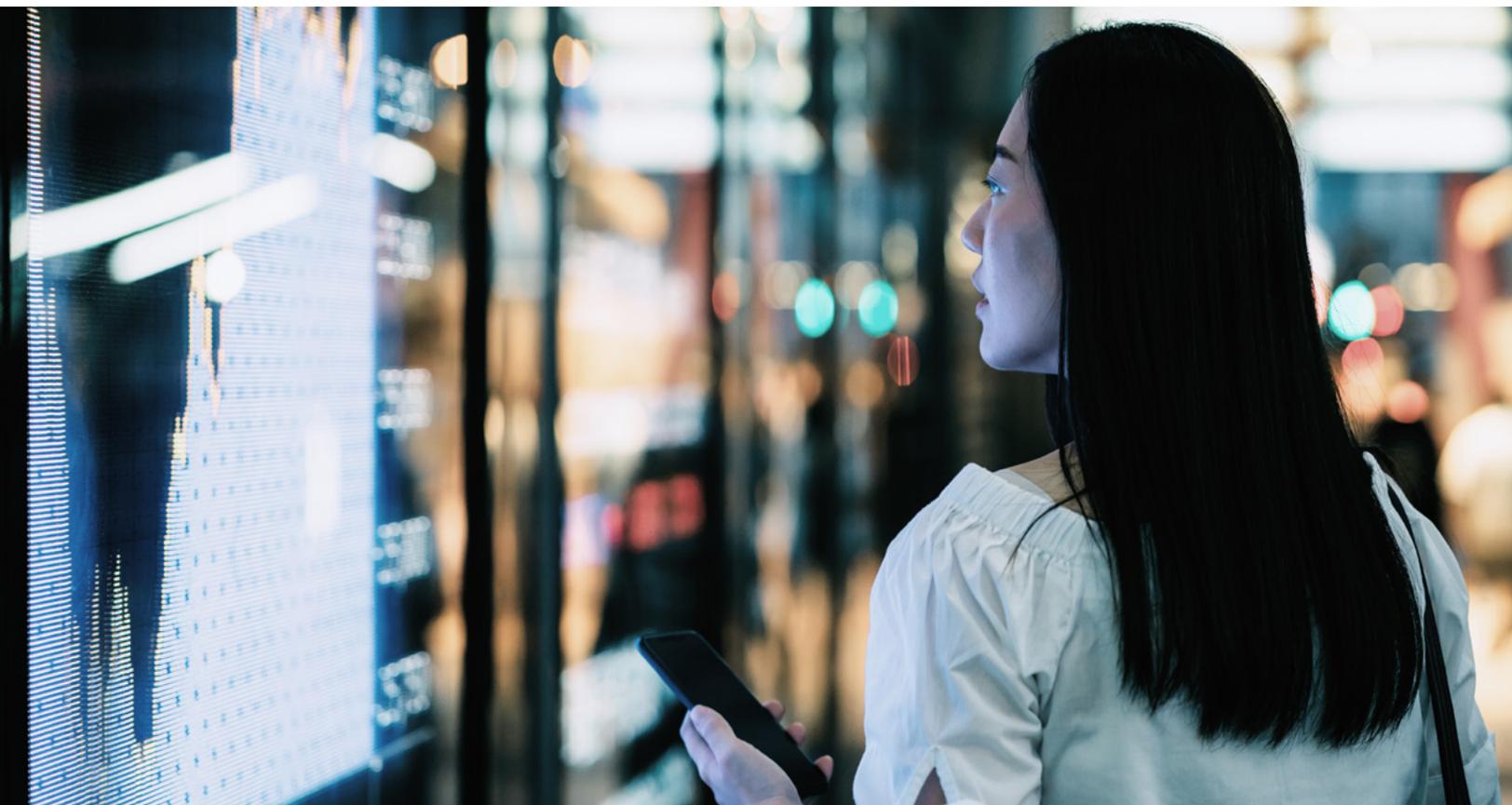


Global Banking & Securities

# European asset management after an unprecedented year

Asset managers weathered the shocks of 2020. Now they face five structural trends that will reshape their operating environment.

*by Sid Azad, Pierre-Ignace Bernard, Cristina Catania, Martin Huber, Niklas Nolzen, and Christian Zahn*



**In 2020, the human tragedy of the COVID-19** pandemic triggered a global economic downturn that was sharper—initially—than the Great Depression but rapidly bottomed out. Global financial markets took a roller-coaster ride as well. For the European asset management industry, the year brought sudden shocks and challenges that accelerated broad waves of change in markets, clients, and operations. This report has been written to shed light on the underlying drivers of European asset management performance, and is based on McKinsey’s proprietary asset management survey and databases.

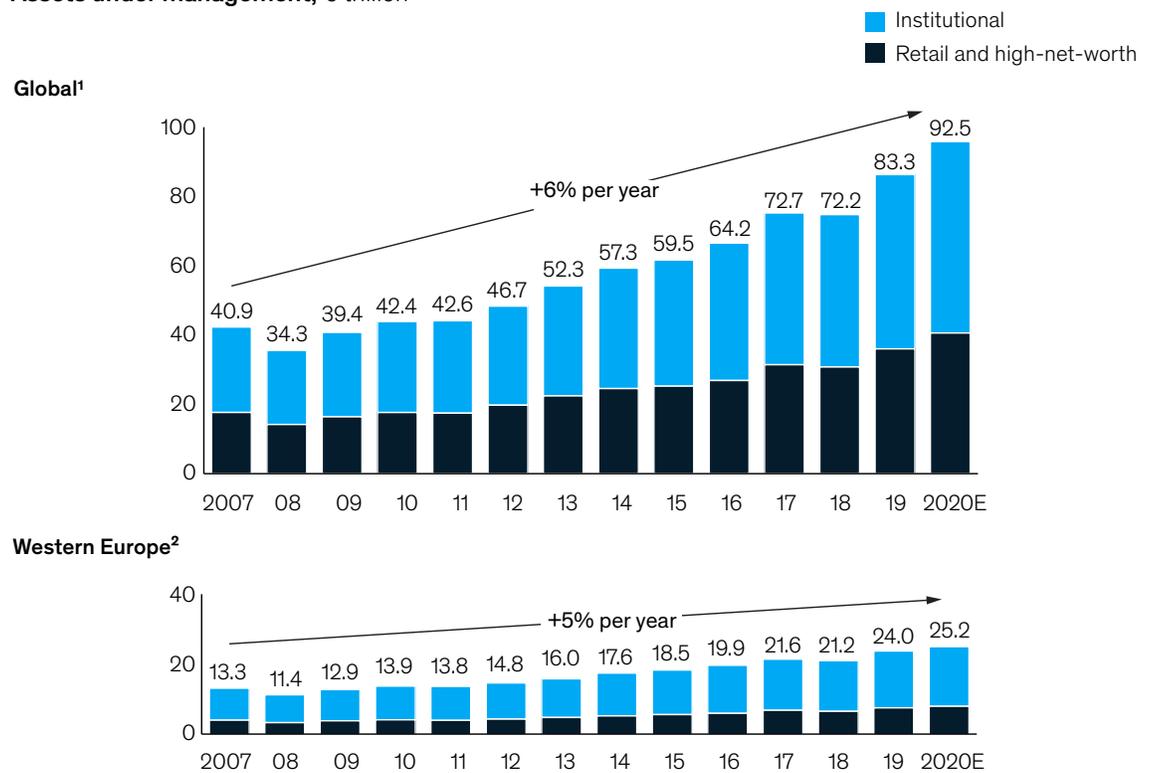
## A year of shocks . . . and a new high in AUM

At the end of 2019, the global asset management industry could look back at its strongest decade of asset growth. The new year brought a global pandemic, quickly followed by massive government and central-bank interventions and then market-stimulating news of progress toward a vaccine. The resulting combination of favorable net new flows and rising markets propelled global industry assets under management (AUM) to a new peak of €92.5 trillion, up 11 percent over 2019 (Exhibit 1). AUM for Western European asset managers grew 5 percent in 2020 to a record €25.2 trillion.

Exhibit 1

### Despite the COVID-19 pandemic, the asset management industry moved to a new high in assets under management.

Assets under management, € trillion



<sup>1</sup>Includes Asia–Pacific, Europe, Latin America, and Western Europe; local currencies converted to euros.

<sup>2</sup>Includes Austria, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom.

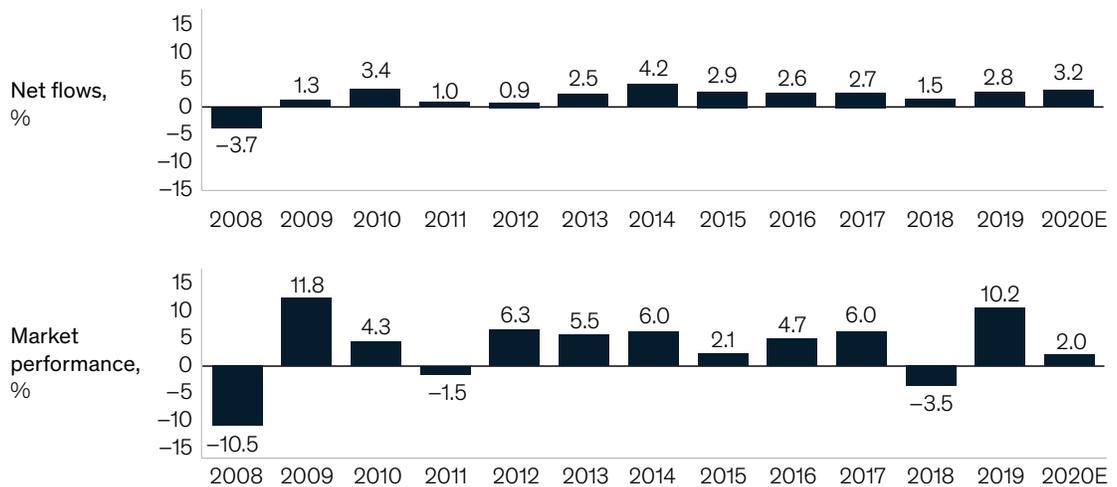
Source: McKinsey Global Growth Cube; McKinsey analysis

While the global economy had a difficult year in 2020, the asset management industry once again demonstrated resilience. The markets entered a period of intense stress toward the end of March, and with that, the industry saw bouts of high volatility and uncertainty. In just a few weeks, investors moved enormous amounts from riskier into safer assets; investors in Europe withdrew more than €100 billion in 2020's first quarter. European markets quickly recovered, however. In the remainder of the year, net flows into long-term assets recovered significantly, with each quarter generating higher inflows than the year-earlier period. The resulting €750 billion in net flows across all asset classes and segments for the year increased AUM by 3.2 percent, the third-highest annual net flow effect over the preceding 13 years (Exhibit 2).

Exhibit 2

**While market performance was lower than in 2019, net flows in 2020 reached their highest proportion since 2014.**

**Western Europe**



Source: McKinsey Global Growth Cube; McKinsey analysis

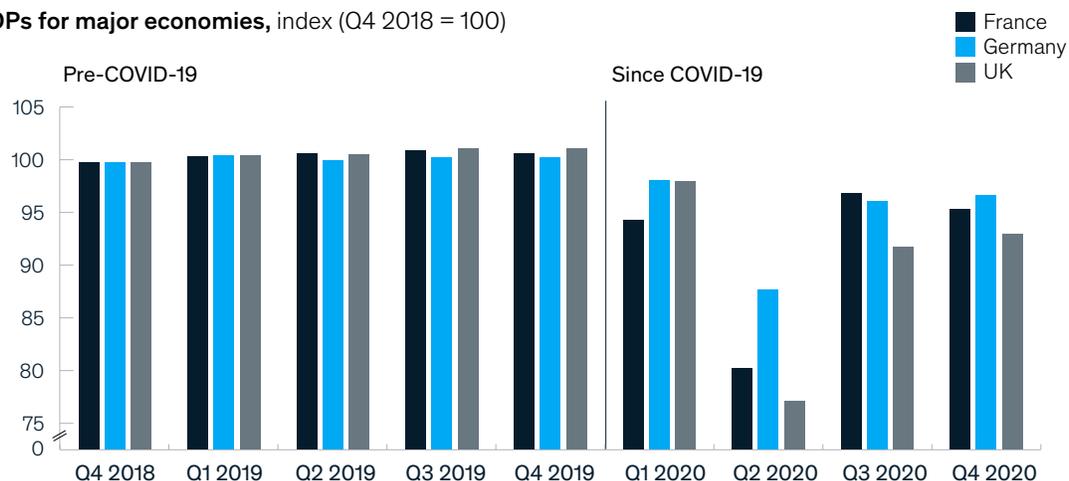
**Nations' economies struggled to recover as financial markets rebounded**

The pandemic weighed on economic activity, causing recessions and high unemployment around the world (Exhibit 3). Europe's economic downturn has been mitigated by unprecedented governmental support for extensive recovery and resilience plans, but the bloc slipped back into recession in May 2021, widening the gap between forward-looking financial markets and a stagnant real economy.

Exhibit 3

## Major European economies have not returned to pre-COVID-19 GDP levels, given the imposed lockdowns.

GDPs for major economies, index (Q4 2018 = 100)



Source: OECD

In contrast, equity markets recovered quickly from the lows of March 2020, and some went on to hit new highs (Exhibit 4). The second and third waves of the pandemic in Europe increased market volatility, but investor sentiment has been supported by low interest rates, ongoing fiscal and monetary stimulus, and expanding numbers of vaccinations, so valuations remain high. However, dispersion among sectors and industries is complicating active portfolio management.

### Retail net flows rebounded; institutional investors have been more cautious

In total, assets under management in Western Europe expanded by €1.2 trillion to €25.2 trillion in 2020, a rate of 5 percent. The institutional segment claimed a share of about 68 percent of total AUM.

Rates of AUM growth slowed in 2020. Growth in institutional assets fell from 12 percent in 2019 to 5 percent, while retail assets saw an even greater decline in growth, from 15 percent to 6 percent.

In a year combining crisis and tremendous volatility with a capital market bonanza, AUM growth was powered by stronger retail and high-net-worth (HNW) inflows after two years of weakness. The contribution of the retail base recovered to about 36 percent of all net inflows, roughly equal to the segment's proportion of assets under management. In absolute terms, net flows from the retail and HNW segment rose sharply to about €270 billion in 2020 from about €160 billion in 2019, while institutional net flows rose over the same period by about 12 percent, to roughly €500 billion.

Exhibit 4

**Major financial markets recovered quickly in Q2–Q3 2020, powering growth in assets under management.**

**Equity market performance, 2020–21 year to date, index (Jan 1, 2020 = 100 in local currency)**



Source: Bloomberg

### European asset management: 2020 industry highlights

- In 2020, Western European<sup>1</sup> assets under management (AUM) grew 5 percent to a record €25.2 trillion.
- Net inflows of €750 billion across all asset classes and segments boosted AUM by 3.2 percent, the third-highest annual net-flow effect in 13 years.
- Overall profit pool increased by €2.2 billion to €22.8 billion, with the tailwinds of a buoyant market and positive net flows offsetting the negative impact of fee compression and asset-class shifts.
- While cost-to-income ratios remained relatively stable in 2020 at 59 percent, absolute cost pools increased for the 11th year in a row (up 4.2 percent in 2020), highlighting how heavily the industry’s profitability relies on rising markets.

<sup>1</sup>Includes Austria, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Spain, Switzerland, Sweden, and the United Kingdom.

### Increased market volatility accelerated shifts in product and asset-class mix

Actively managed strategies accounted for 80 percent of European industry AUM in 2020 and captured 32 percent of the year's net flows. However, unlike prior crises, where investors disproportionately pulled assets out of equities, the flow momentum this time moved in the direction of both money market and active equity products, accounting for 37 percent of total net new flows, up from 16 percent in 2019. Net inflows to money market funds were about €240 billion over the full year, making up 31 percent of total net flows (Exhibit 5). At the same time, 2020 marked a return to positive net flows into active equity strategies for the retail segment, after two years of constant outflows.

The demand for equity funds later in the year, reinforced by the prolonged supportive monetary policy across Europe and the momentum of rising markets, more than offset the equity outflows of the first quarter. At the same time, traditional safe-haven asset classes such as active fixed income saw lower levels of net inflows than in 2019, mainly the result of outflows realized in the first quarter.

On the passive side, AUM ended the year about 10 percent higher, with net flow growth of 8 percent, the second-largest increase among all product classes. Overall, 2020 was the third year in a row where passive products showed double-digit growth in net flows, expanding their share to about 15 percent of total AUM and rising in rank to the third-largest asset class (following active fixed income and active equity).

Despite the volatility and the opportunities offered by the financial markets in 2020, active asset managers could not fully play to their strength: On the fixed income side, active managers won out

Exhibit 5

### The impact of the pandemic drew institutional assets into money market funds and passive funds.

Net inflows, 2020, Western Europe, by asset class  
€ billion<sup>1</sup>

Asset class	Retail and high-net-worth		Institutional	
	Net inflows, € billion	Relative growth, <sup>2</sup> %	Net inflows, € billion	Relative growth, <sup>2</sup> %
Total passive	160	16	125	5
Money market	55	17	185	18
Total active equity	45	2	-5	0
Active fixed income	35	3	105	2
Active multiasset	20	1	30	1
Alternatives <sup>3</sup>	-40	-2	55	3

<sup>1</sup>Figures have been rounded.

<sup>2</sup>Relative growth calculated as net flows in % of assets under management at the beginning of the year.

<sup>3</sup>Includes hedge funds, absolute return / liquid alternatives, commodities, real estate, private equity, infrastructure, real assets, private debt, structured products, and other alternative investments.

Source: McKinsey Global Growth Cube; McKinsey analysis

over passive only in US fixed income (5.5 percent vs. 4.2 percent<sup>1</sup>), while they lagged behind in global fixed income and European government bonds. A mixed picture also emerged on the equity side. While active managers outperformed in US equity small cap (23.1 percent versus 13.8 percent) as well as in Asia–Pacific excluding Japan (20.5 percent versus 12.4 percent), they trailed in US equity large cap (12.3 percent versus 14.2 percent) and global equity large cap (2.1 percent versus 4.2 percent).

**Asset management industry finances remain under pressure**

Over the last decade, the industry struggled to return to the profitability heights of 2007, and those efforts have plateaued in the last five years. In 2020, Western European asset managers earned a revenue margin of 32.8 basis points of AUM, versus 33.5 basis points in 2019 (Exhibit 6).<sup>2</sup>

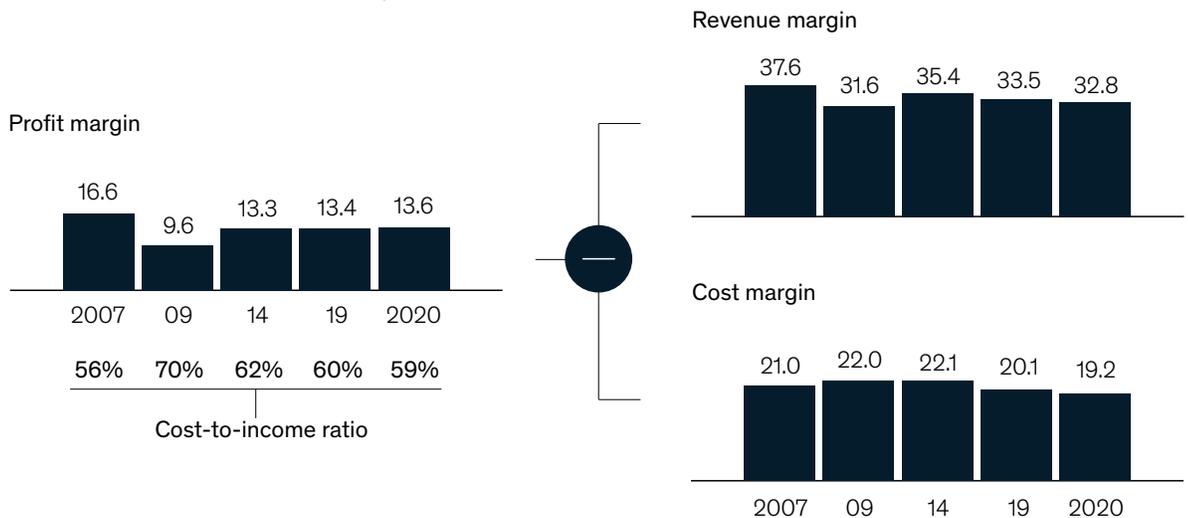
However, this overall fee compression—notably the result of the change in asset mix toward lower-yielding asset classes, particularly money market funds and passive—has not fully offset the tailwinds of a buoyant market and positive net flows. As a result, the Western European revenue pool has grown 7 percent (to €55 billion in 2020 from €51.6 billion in 2019), and the profit pool increased 11 percent, to €22.8 billion (Exhibit 7).

<sup>1</sup>Morningstar, European Active Passive Barometer Year-End 2020 (for mutual funds). All figures are equally weighted.  
<sup>2</sup>Figures include third-party business.

Exhibit 6

**Showing small declines in both revenue and cost margins, managers earned stable profit margins in 2020.**

**Asset management profitability, Western Europe**  
 basis points of assets under management



Source: McKinsey Global Asset Management Survey

Exhibit 7

**Profit pools increase was driven by positive net flows and market performance.**

**Asset management profit pools,<sup>1</sup> Western Europe, € billion**



<sup>1</sup>Reflects third party only, excluding alternatives.

<sup>2</sup>Refers to change in asset mix and market performance.

Source: McKinsey Global Growth Cube; McKinsey Global Asset Management Survey

When we pull back the curtain of solid AUM and revenues to reveal the industry's profitability, we see that Western Europe's asset managers have not been able to exploit the operating leverage once thought to be a fundamental feature of the business. But considering the massive dislocation and volatility caused by the pandemic, industry results held up fairly well: cost-to-income ratios were almost stable, at 59 percent in 2020 versus 60 percent in 2019, translating into an overall profit margin of 13.6 basis points for 2020, slightly better than the 13.4 basis points of 2019.

Looking within these numbers, however, the absolute cost pool grew at 4.2 percent for 2020. This highlights how heavily the industry's profitability relies on rising markets.

If asset managers can indeed focus on capitalizing on their economies of scale through greater control over costs, we estimate a significant aggregate potential—approximately €15 billion in incremental profits. Hence, the core question remains: Given the industry's challenges in costs and competition, how can asset managers recapture the inherent operating leverage?

### **Five structural trends shaping Europe's asset management landscape**

In our view, the context for European asset managers is being shaped by five structural trends. Some of the trends are of long standing, while others have recently emerged; all of them are accelerating or having a greater impact because of the pandemic.

#### **Loose monetary policy**

Accommodative central-bank policy has prevailed since the financial crisis and was further eased in first quarter 2020, when COVID-19 hit. However, the incremental impact of this policy was

limited, given the already low level of rates. Moreover, the fiscal responses in Europe to date have been insufficient to prevent a recession, and participants in our recent surveys on the impact of COVID-19 do not expect a genuine recovery in Europe before 2023. The consensus of economic expert opinion is that the ECB will want to see evidence of a sustained recovery before even considering tightening monetary policy, and so low interest rates are likely to endure for the foreseeable future.

*Impact:* A prolonged period of easy monetary policy will likely continue to support equity markets while suppressing the returns to fixed income, particularly in view of the ECB’s asset purchase programs. As a result, asset management companies will likely see further declines of interest in fixed income among retail investors.

### Government intervention

During the 2008 financial crisis, central banks were the prime movers of financial recovery, but during the COVID-19 crisis, countries’ ministries of finance provided added fiscal stimulus. Public deficits are expected to grow in the European Union to 95 percent of GDP by end of 2021, a double-digit increase from the start of the COVID-19 pandemic.<sup>3</sup> In part, this spending was required to ensure short-term liquidity to help businesses and even entire sectors survive. As the fiscal rules of the EU’s Stability and Growth Pact have temporarily been suspended, public intervention is expected to remain at a high level and should become a key force behind a recovery (Exhibit 8).

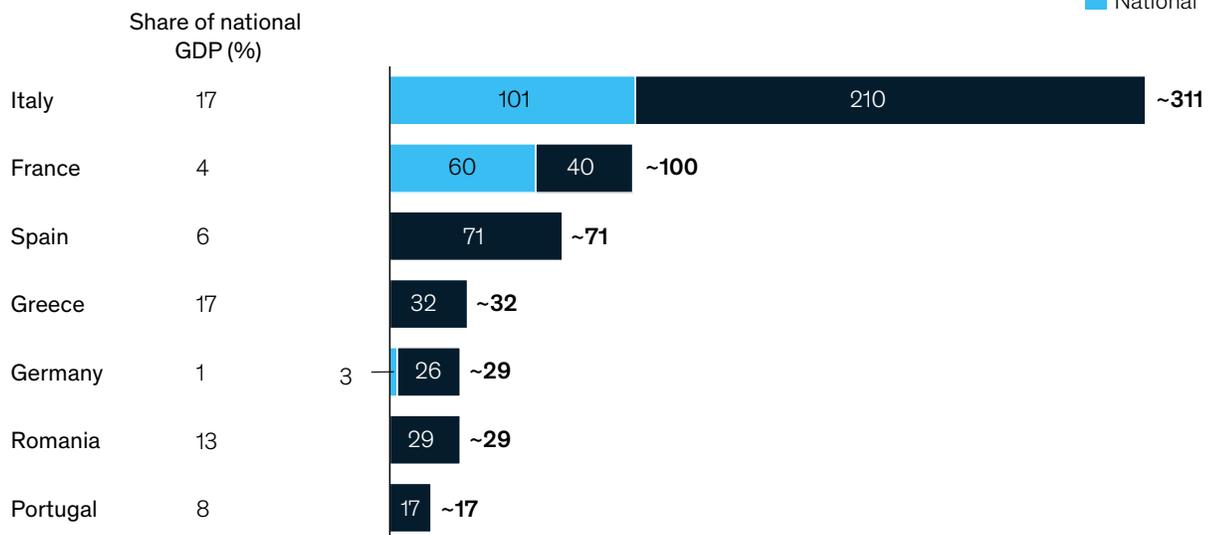
<sup>3</sup>European Commission, European Economic Forecast, Spring 2021.

Exhibit 8

## The pandemic has triggered the development of large-scale Recovery and Resilience Plans totaling about €750 billion.

### Plans, EU and national funding<sup>1</sup>

€ billion



<sup>1</sup>Adjustments currently in progress.  
Source: National Recovery and Resilience Plans

*Impact:* Ongoing fiscal stimulus to mitigate the economic impact will shape the future business cycle, depending on the degree of virus outbreaks and intensity of lockdowns, the preexisting social- and business-support measures already in place, and the structure of the economy. Asset managers must evaluate the potential consequences, including possible increases in state control of companies, when developing portfolio strategies.

**A focus on ESG**

Governments and corporates in Europe have increasingly focused on sustainable investments, responding to investors’ needs to optimize risk and return and to societal concerns about the environmental and social aspects of investment targets. Europe has far more funds that are considered “sustainable” than any other asset management industry in the world; for instance, Europe’s ESG bond issuing volume is twice as high as that of the United States and Asia combined.<sup>4</sup>

However, we believe that the economic rebuilding required in the wake of COVID-19—once the pandemic abates—will offer a moment for asset managers to show leadership in guiding Europe to an even greener path and improved sustainability, particularly given the significant share of green and digital investments in the recovery and resilience plans of the European Union member states (Exhibit 9).

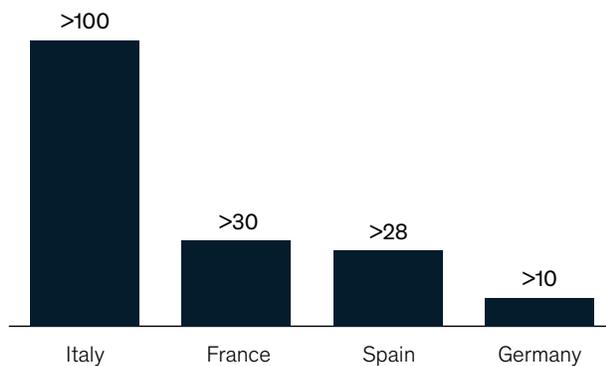
*Impact:* An increased focus on environment, social responsibility, and overall sustainability will add a new dimension to investors’ assessments of their risk/reward profiles and goals, giving asset

<sup>4</sup>Alastair Marsh, “U.S. Falls Further Behind Europe in Fast-Growing ESG Market,” December 21, 2020, Bloomberg.com.

Exhibit 9

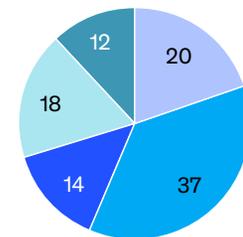
**Large amounts of the funds are allocated to environmental investments in EU National Recovery and Resilience Plans.**

**Funds allocated to environmental investments in EU National Recovery and Resilience Plans,<sup>1</sup> € billion**



**Average breakdown of investments<sup>1</sup> %**

- Digital transition
- Green transition
- Productive system
- Infrastructure, transport and mobility
- Skills, education, and employment



<sup>1</sup>Adjustments currently in progress.  
Source: National Recovery and Resilience Plans

managers opportunities for new products and solutions. This development will accelerate further once the planned government intervention has had a favorable economic impact.

### **Shift to digital**

The current environment is prompting innovation in companies' operating models. The shift to remote working and other changes to working practices may be just the start of a broad-based technological disruption. Certain technologies—video conferencing, for instance—became widespread during the pandemic. The technologies were available before COVID-19, but they caught on because physical distancing and other public-health measures provided a convincing demonstration of needs and benefits. However, while asset managers rapidly embraced remote techniques as necessities, a few leading firms have started to beckon their employees back to the office—leaving the future of remote working up in the air.

The pandemic also triggered a step change in customers' attitudes toward digital platforms. In Europe, digital adoption within all banking products jumped from 55 to 77 percent during COVID-19, according to a McKinsey digital-sentiment survey. Companies across industries will need to adapt to these accelerating shifts in behavior.

*Impact:* While digital channels are not new, COVID-19 has increased consumer and employee comfort with remote tools and remote working to a point where it has the potential to disrupt the global economy. In turn, the shift to digital may increase uncertainty in equity markets by way of an accelerated sectoral dispersion in which technology companies extend their leads and industries with low digital adoption rates fall behind, requiring asset managers to adjust their portfolio holdings in favor of the more dynamic companies.

### **Regionalization of the economy**

After decades in ascendance, globalization and trade expansion appear to have reached a turning point. While interregional trade increased by 6 percent from 2008 to 2012, it has declined by 4 percent since. This reversal has been encouraged by an uptick in instances of new barriers to trade.

The 2020 pandemic has reinforced the rise in these trends, much as the 2008 financial crisis did. Combined with measures to combat COVID-19, trade restrictions have led to a sharp decline in global trade flows and an increase in local sourcing in an effort to restore the resilience of supply chains and ensure economic continuity.

In line with reduced trade flows, regionalization can impose second-order effects on financial flows. Between 2010 and 2019, the share of AUM of the top ten asset managers in Europe and the top ten in the United States that were distributed within the same continent, increased by 9 percentage points to 75 percent in Europe, and by 5 percentage points, to 77 percent in the United States.<sup>5</sup> In Asia (particularly China), this trend is more nuanced, as US- and Europe-based asset managers have expanded their footprints—albeit mainly via partnerships with local players, despite regulatory easing.

*Impact:* Western European asset managers can expect increasing challenges in cross-regional ventures, stemming from country- and region-specific regulation. Moreover, varying demographic evolutions and investor expectations, together with country-specific requirements, will increase pressure on managers to offer more localized and focused products.

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<sup>5</sup>“P&I Database of Top Global AM,” pionline.com.

## **Rethinking asset management**

Historically, the function of the asset management business was relatively straightforward: to serve as a financial conduit, matching private and institutional sources of capital seeking returns with firms needing capital for investment. Today the industry is more complex, serving a wider range of investor needs and objectives for growth, income, and capital protection. And the five structural trends set out in the previous section are adding greater complexity to the task facing asset management leaders as they plan for success in the next normal.

In our view, Western Europe's asset managers must act on three broad imperatives to ensure a sound future. They should play a leadership role in shaping a sustainable future in firms' investing, embrace technological disruption, and capture additional profit pools.

### **Play a leadership role in shaping a sustainable future**

Perhaps the greatest challenge faced by global society is sustainability—maintaining an ecological balance that mitigates climate change and avoids the depletion of Earth's natural resources. The failure to reduce carbon emissions could lead to existential challenges for life on our planet, and even short-term implications could have devastating impacts. For example, as a result of too little action in the short to medium term, governments could find it necessary to declare “carbon lockdowns” as a last resort to stay on track with climate goals, which could have long-lasting effects on the world economy and society.

Given the overwhelming support for sustainable goals from individual and institutional investors, as well as from many governments,<sup>6</sup> asset managers have an unprecedented opportunity to lead and guide the massive effort needed to invest in climate change and sustainability.

Moreover, the global asset management industry oversees about one-quarter of global financial assets for the retail and institutional sectors, and it manages about 40 percent of listed global equity (with an even greater share in the United States and the United Kingdom). Thus, asset managers individually and as a group have a voice that will be heard by corporate boards around the world.

In our opinion, asset managers should establish a leading position by supporting the initiatives established by governments and the many NGOs and industry groups focused on climate change to meet the net zero carbon objectives. They also should steer capital flows in the most productive and sustainable directions. Well-defined ESG strategies should be incorporated into every phase of the investment process, including prioritizing the investments to be made and ensuring adherence to principles of the ESG mission.

Taking on this responsibility will require a radical change in asset managers' internal structures: strengthening diversity and inclusion in the leadership ranks and adopting environmental, social, and governmental considerations into their own operating models. In addition, they should further emphasize the “social” of ESG policy, given the suddenness and depth of COVID-19's impact on our social lives, by calling for fairness in labor issues as well as workplace health and safety. European asset managers should focus in particular on these imperatives:

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<sup>6</sup>“Is sustainable investing moving into the mainstream?,” Harvard Business Review, November 2019, sponsored content from UBS, hbr.org; “BlackRock corporate sustainability,” BlackRock, blackrock.com; “The Recovery and Resilience Facility,” European Commission, ec.europa.eu.

- *A clear value proposition for ESG.* For European asset managers, offering ESG-labeled products is not enough. As ESG investments become mainstream, asset managers need to clearly demonstrate the value proposition of their overall ESG strategies and reach beyond a one-size-fits-all approach to deliver unique product and process features. This effort calls for new skill sets in product design, as well as clear articulation of which ESG factors their products emphasize, how they are implemented, and the intent of their impacts.
- *True impact investing.* The asset management industry has a duty to clients and society at large to understand the full implications on sustainability of the companies they invest in and to represent their clients' interests in interactions with management teams. Through stakeholder engagement and true active investing, asset managers can play to their strengths by helping companies adhere to ESG standards. In the case of small businesses, doing so can also help make the businesses eligible for state funding (for example, the grants offered by the European Commission for organizations that further the interests of the EU).<sup>7</sup>

As an example, reaching the 1.5-degree climate target pathway of the Paris agreement will require deep structural changes to the real economy. This goes along with a significant reallocation of capital investments, estimated at €28 trillion in the EU over the next 30 years. For asset managers, this represents a solid opportunity to foster a positive change in society as they tap into additional profit pools.

- *Taking an ESG lead outside of the home market.* Europe is leading in establishing stakeholder economies, and the European capital markets have more ESG activity than others in the world. European asset managers have a unique opportunity to build on that lead and expand their footprints by taking ESG capabilities, products, and investment solutions abroad.
- *Being a good citizen.* Asset managers need to keep in mind that delivering a compelling and successful ESG proposition to clients goes hand in hand with asset managers themselves acting as good citizens. Ways they can do this include putting greater emphasis on managing their own environmental footprints (for example, with the help of environmental reporting), making the right choices on social matters such diversity and inclusion (in leadership and across functions), and applying best-practice governance within their organizations.

### **Embrace technology disruptions**

The shift to remote working in response to COVID-19 is a harbinger of the technological change we expect to occur over the next decade. The road forward for asset managers should include a transformation toward organizations that are adaptive and continually learning. Building on the strong foundation of a knowledge-based industry and the new opportunities provided by technology (such as advanced analytics and “machine learning 2.0”), asset managers should target strength in three specific areas:

*Commit fully to improving efficiency through technology.* Asset managers have tentatively explored advanced analytics and artificial intelligence for some time, and over the last decade, they have experimented with use cases and built initial capabilities. Now, however, as barriers to deploying these solutions fall aside, we expect they will pursue at-scale application—and not only in support and back-office functions, such as via robotic process automation. Opportunities exist in sales through advanced customer relationship management and in portfolio management through optical character recognition,

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<sup>7</sup>As an example, see “Funding opportunities for small businesses,” [ec.europa.eu](https://ec.europa.eu).

social-media noise tracking, and natural-language processing tools that review and digest research and emerging news.

The benefits include lower costs in supporting functions and increased sales effectiveness. However, being able to fully ride this trend will require an operating model that is truly scalable, leveraging remote working and APIs, all supported by a full cloud architecture. Firms will need to embed technology into their overall strategies and align the required resources and investments with their aspirations.

*Radically upgrade customer experience in both retail and institutional sectors.* Technology is also taking customer experience and direct distribution in new directions. Asset managers must strengthen their ability to interact directly with retail and institutional clients and intermediaries and to provide a high-quality experience supported by digital tools. Exploiting the potential of new service models and upgrading and transforming core technologies will be essential to delivering a personalized experience. This requires a clear overview of end-to-end processes and journeys from a client perspective, including client service, performance reporting, and attainment of clients' goals.

Beyond the application in direct distribution channels, launching digital businesses quickly is easier than ever. Technology blurs the frontiers of the industry and builds revenue opportunities, enabling asset managers to expand their territories—moving upstream with digital advice, downstream with real asset operations, or laterally with loan origination.

*Build distinctive new digital capabilities for investment themes and new asset classes.* Traditional managers will likely deploy tools such as advanced analytics and AI to support and augment human decision making rather than replace it. Moreover, distributed ledger technologies (DLT), which enable more cost-effective, secure, and—in most commercial use cases—fully traceable flow movements, may be ushering in a new era of investment processes and products.

For example, as capital markets firms, fund administrators, and custodians deploy DLT, it could become the primary front-to-back messaging technology in asset management within ten years. In addition, the tokenization of assets enables digital trading and helps to “liquidize” traditionally illiquid assets such as art or real estate, opening investments in these assets to a much broader customer group. These technologies will help traditional active asset managers reclaim some lost territory. However, as soon as these assets become “indexable,” ETF providers will quickly follow.

### **Move the boundaries to capture additional profit pools**

Europe's asset managers had no success at improving cost management in 2020, albeit in an admittedly challenging year. To achieve profitability in the future, we see two major growth levers: capturing economies of scale and pushing the limits of the asset management market to new frontiers.

To realize economies of scale, asset managers have to assess their firms' operating models with an eye toward scalability while adopting cost-saving technologies and decreasing operating model complexity. For asset managers that lack scale internally, the best option may be to look outward and expand partnerships, outsourcing, or nearshoring and offshoring.

From the perspective of revenue growth, managers need to undertake a dedicated effort to understand unsatisfied and underserved investor needs, so they can articulate a more compelling

## **A competitive-landscape assessment checklist for asset managers**

### **Play a leadership role in shaping a sustainable future**

#### **1. A clear value proposition for environmental, social, and governance (ESG)**

- Anchor ESG responsibility at the top of the organization, with senior commitment visible internally and externally.
- Establish a product offering with ESG approaches (risk screening, exclusion, integration, impact, etc.) that are clearly positioned, labeled, and communicated.
- Create a differentiated fund range for thematic products that is tailored to end-client demand and insightfully distributed.
- Design and implement proprietary ESG models fulfilling a dual value proposition of financial and ESG returns.

#### **2. True impact investing**

- Develop a dedicated offering of impact investments.
- Set out a clear grid of nonfinancial objectives and key performance indicators, ensuring transparency and accountability.
- Define and report on a detailed engagement approach across public and private assets.

#### **3. ESG leadership outside of the home market**

- Ensure the exportability of ESG capabilities and processes.
- Shape a strategy for ESG outside of the home market, including a public voice, an education program, a tailored product offering, and a relevant distribution approach.

#### **4. Good citizenship**

- Set ambitious ESG targets at the corporate level with clear initiative plans and accountability.
- Establish internal processes for best-practice governance and risk management.
- Increase diversity in firm leadership and across functions.
- Adopt ESG criteria across the operating model.
- Include environmental section in external reporting.

### **Embrace technology disruptions**

#### **1. Efficiency improvement through technology**

- Incorporate technology in the firm's strategy and resource allocation, and link with the firm's overall aspirations.
- Develop a learning organization with an adaptive operating model and a culture committed to innovation and performance.
- Enforce a clear make-or-buy strategy for technology.
- Streamline asset servicing, moving toward a zero-manual-operations environment leveraging smart automation, digital assets, and new standards of connectivity.
- Build out cloud capabilities along the entire value chain.
- Design a road map for at-scale application of advanced analytics and artificial intelligence throughout the entire organization.

## 2. Upgraded customer experience (CX) in retail and institutional sectors

- Create a new CX framework, including operational metrics and a clear vision for client experience.
- Establish a mechanism to track operational metrics and remedy shortfalls.
- Develop a clear, client-oriented line of sight on processes and customer journeys.
- Embed CX across the firm's operating and governance models.
- Measure and reward the bottom-line impact of meeting CX goals.

## 3. Distinctive new digital capabilities for investment themes and new asset classes

- Incorporate AI-based support tools across asset classes to enhance investment performance for actively managed strategies.
- Roll out digital capabilities for a more disciplined approach to portfolio construction.
- Provide a clear road map and strategy for the adoption of new technology such as distributed ledger technologies.
- Provide adequate funding to align investments in technology with business outcomes.

## Move the boundaries to capture additional profit pools

### 1. Economies of scale

- Develop a scalable global operating model across all functions and processes.
- Explore synergies of technology resources and assets.
- Leverage scale opportunities from outsourcing across noncore functions and processes—particularly on the liquid side—to ensure efficient vendor management.
- Institutionalize a recurring effort to simplify the operating model.

### 2. Market expansion

- Make a dedicated effort to identify and understand unsatisfied and underserved investor needs.
- Anticipate clients' future product demands (e.g., pension-like products integrating investments with elder care, health insurance, and telemedicine; retail portfolios personalized for investment theme and tax preferences).
- Develop an expansion strategy for the fastest-growing underserved geographies (e.g., a regional strategy for Southeast Asia).
- Install a multilayer approach to retail clients to broaden access and better understand relationships.
- Define innovative distribution, such as ecosystems with nonfinancial institutions.

value proposition. Asset managers that can meet clients' increasing expectations will benefit from a virtuous cycle, as greater engagement generates deeper levels of customer satisfaction and loyalty. This can take many forms: alpha generation, superior execution, simplified market access, improved risk control, richer diversification, and fulfillment of clients' ESG goals. Innovation, creativity, and marketing insights all will be necessary to deliver for clients.

In the long term, moving boundaries will increase competitive advantage by expanding the set of products and solutions with relevance and significant growth potential. One example is retirement income and pension funds: The increasing wealth of high-net-worth individuals and the mass affluent, along with the aging society in Europe, have accelerated growth in these markets, creating a clear opportunity for asset managers that can offer tailored products. Another example is the expansion into fast growing, underserved geographies, such as via a pan-regional strategy for Southeast Asia. The checklist in Exhibit 10 can help asset managers assess their current role in the competitive landscape and identify new areas for success.

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The COVID-19 pandemic shook the entire world, and with it the European asset management industry. However, the business recovered quickly, ending the year with new highs in AUM and maintaining its profitability.

The pandemic accelerated five structural trends that we believe will change the landscape of European asset management. Most are outside asset managers' control, but call for firms' awareness and reaction in managing the impact on their clients' portfolios and their own businesses.

Control over one trend, however, is in the hands of managers: their participation in the growing role of sustainability in investing. The asset management industry faces a great opportunity—to take a leading role in shaping a sustainable future and in the fight to combat climate change. To rightly serve their customers and society at large, managers must infuse ESG considerations into their investing and every aspect of their businesses.

The COVID-19 crisis has also reinforced the importance of adaptive learning within asset managers' organizations. The industry has many opportunities to grow its scale and profitability—some in new technologies for investment, marketing, and operations, and others for expanding revenues through a product set that meets the needs of current and future customers. In the sphere of ESG in particular,

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