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Wealth and asset management
Global Capital Confidence Barometer

REST AREA

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A note from Nadine Mirchandani, EY Global Wealth & Asset Management Transactions Leader

Wealth and asset management companies press pause on M&A in favor of portfolio optimization and integration

The active start wealth and asset management (WAM) companies had in the first quarter of 2018 has tapered off somewhat as some companies pause amid regulatory and geopolitical uncertainty. Thirty-eight percent of WAM respondents in this edition of EY's *Capital Confidence Barometer* indicate that they expect to pursue M&A in the coming year, down from 51% six months ago and well below a record-setting 69% 18 months ago.

Talent and new market entry become key M&A imperatives

Despite a generally positive outlook toward capital markets and improved valuations, regulatory, geopolitical and policy uncertainty are drawing concern: 39% of WAM executives say it's the biggest risk to business growth, while 44% see these factors as the predominant risk to dealmaking in the next 12 months. For WAM companies that are looking to acquire, talent and access to new markets are key imperatives.

One-third of WAM companies are taking a continual look at their portfolios

As a host of technological, fiscal and structural changes transform the industry, WAM companies have increased the frequency of their portfolio reviews. Eighty-two percent now review their portfolios at least every six months, with a third reviewing their portfolios continually. Based on their most recent portfolio reviews, 66% have identified assets either at risk of disruption or that are underperforming to divest.

Preparing earlier for post-deal integration

WAM companies are focusing on integrating the assets they have acquired in the past year, and so are taking a temporary step back from M&A. While nearly half have yet to complete the integration process, of those who have, 25% say they have achieved lower synergies than they had identified. Learning valuable lessons from these transactions, 45% of WAM executives are signaling that they will likely prepare for post-deal integration earlier in the deal life cycle, while 21% say they will place greater attention on how they select integration leaders.

WAM executives expect private equity to step in as a dominant player in M&A in the year ahead

Fifty-seven percent of WAM executives expect the M&A market to improve in the year ahead, with 39% of respondents expecting private equity to be an increasing presence in the market, while 42% expect private equity firms to be their primary competition. While WAM players press pause, private capital players are returning to the M&A market with significant purchasing power as they look to invest more for the medium and long term.

Macroeconomic and external environment

Strong corporate earnings and open credit markets point to a continued upswing in equity markets.

69%
see the global economy as improving.

68%
see corporate earnings improving.

57%
expect the asset management M&A market to improve.

Buy and integrate

Executives see the M&A cycle continuing at elevated levels, with identification and realization of synergies at the center of M&A value creation.

46%
expect to actively pursue acquisitions in the next year – the lowest in four years.

45%
are starting integration planning earlier.

25%
say they achieved lower synergies than anticipated in their most recent deal.

Major M&A themes

Private equity is seen to be a major influence in near-term dealmaking, and cross-border dealmaking is on the rise.

42%
expect more competition for assets from private equity buyers.

36%
have identified an asset at risk of disruption to divest as part of a portfolio review.

33%
say their organization's main focus in the next 12 months will be on cross-border dealmaking.

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