

Wealth & Asset Management Global Capital Confidence Barometer



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

M&A appetite forms one part of a bullish growth strategy among wealth and asset management executives

Wealth and asset management (WAM) executives appear optimistic about both the economic outlook and their own future performance. The overwhelming majority of WAM executives (90%) see global economic growth on the upswing, and 70% of WAM executives are bullish on achieving 6% to 15% revenue growth in the coming year. And they'll be looking at every angle to achieve it, including M&A.

However, we feel it's important to recognize that our M&A survey was conducted in February and March 2019, when a resolution to both the US-China trade situation and Brexit seemed likely. Since then, tensions relating to both issues have escalated. At the same time, economists and analysts continue to warn of an economic slowdown, something 34% of WAM executives acknowledge is the primary risk to their business.

M&A appetite among WAM executives is up slightly from April 2018, but remains tempered compared to two years ago, as 53% indicate they'll pursue M&A in the next 12 months (versus 51% in 2018 and 69% in 2017). For nearly a quarter (23%) of WAM executives, sector convergence lies at the heart of deal rationale. In an effort to offset pressure on fees, WAM firms are looking to gain scale through consolidation.

Yet acquisition is only one step in a transaction's success. Deriving value from the acquired assets relies on a sound integration strategy – something 28% of WAM executives say is their biggest transactional risk.

Hiring talent poses the biggest challenge to organizational growth

While WAM executives say slowing economic activity is the biggest risk to their business, identifying and hiring talent is top of mind within their own organization.

To address the talent issue, 26% say they plan on increasing the use of technology, automation and AI. Yet there is often an overestimation in the short term and an underestimation in the long term of what automation and AI can deliver. As a result, many WAM companies have yet to exploit their full potential. This may, in part, explain why, in addition to prioritizing technology, WAM companies still see value in a permanent workforce, with 22% saying they plan on hiring more full-time staff.

Technology and portfolio reshaping play key roles in capital allocation

Deploying automation and AI forms part of a broader technology strategy for WAM companies. Almost all executives surveyed say they'll be making significant investments in technology in the coming year, spread across a range of front- and back-office activities. Technology also plays a prominent role in capital allocation strategies, with WAM executives citing transformational investment in digital and technology as the top capital allocation priority.

Portfolio reshaping is another area getting a lot of attention. A robust and structured approach to capital allocation will better position WAM companies to capture value in the current disruption-led environment. As such, 57% of WAM executives review their portfolios every quarter or more. As a result of their most recent review, 44% reshaped capital allocation across the whole portfolio.

Innovation seen as critical to long-term value creation

Looking ahead, WAM executives see innovation as critical to long-term value creation. In the shorter term, boardroom agendas will focus on the impact of digital technology, data strategy, geopolitical uncertainty and reshaping portfolios so that their companies are fit for the future.

Top five investment destinations

- 1  US
- 2  UK
- 3  France
- 4  Germany
- 5  China

Macroeconomic environment and risks to growth

Despite concerns of a slowing economy as a primary threat to growth plans, companies remain optimistic about their own performance and growth potential.

90%

of executives see the global economy as improving.

70%

of companies expect revenue growth of 6%-15% in the next year.

34%

of executives acknowledge a slowing economy as the primary risk to their business.

Portfolio reshaping and long-term value creation

Companies are building resilience into their operations and are instilling financial discipline while realigning portfolios to future-proof growth.

75%

of executives say they are compelled by activist pressure to continually assess and reshape their portfolios.

57%

of executives expect to review their portfolio at least quarterly.

63%

of executives are focused on reducing costs to free up investment capital.

M&A outlook and major themes

Executives are more bullish in their outlook and are building resilience into their operations, while at the same time focusing on integration as a key transaction risk.

67%

of companies expect the M&A market to improve in the next 12 months.

53%

of executives expect to actively pursue acquisitions in the next year.

42%

of executives identify integration and achieving forecasted synergies as key transaction risks.

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