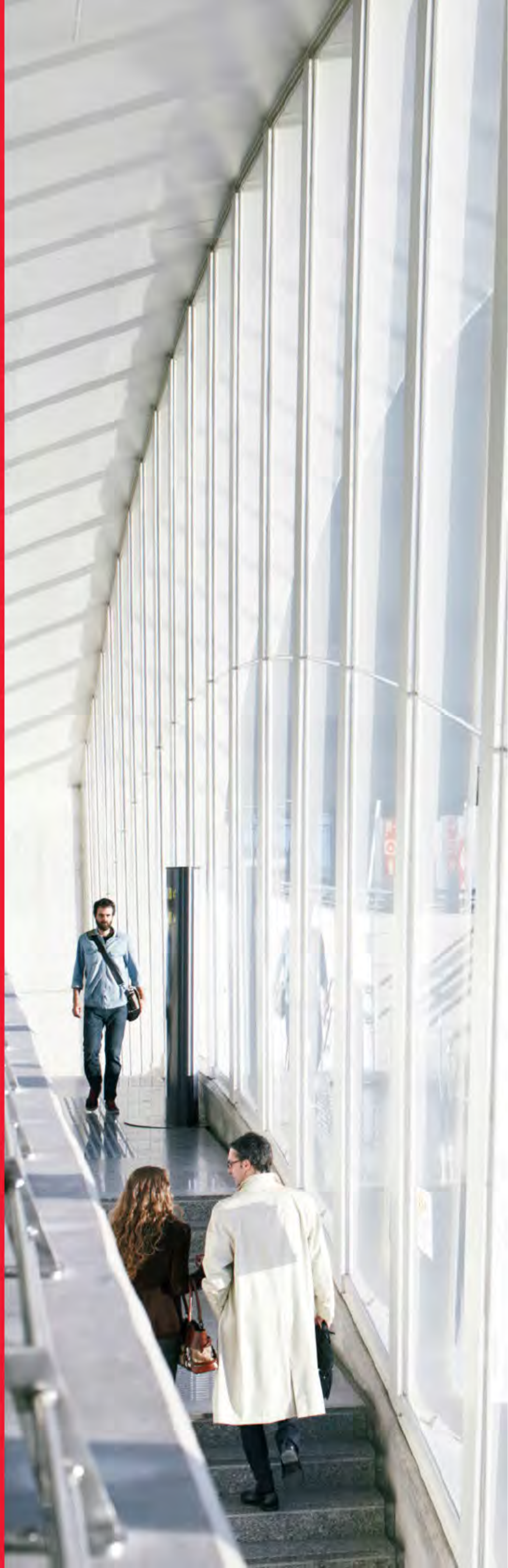
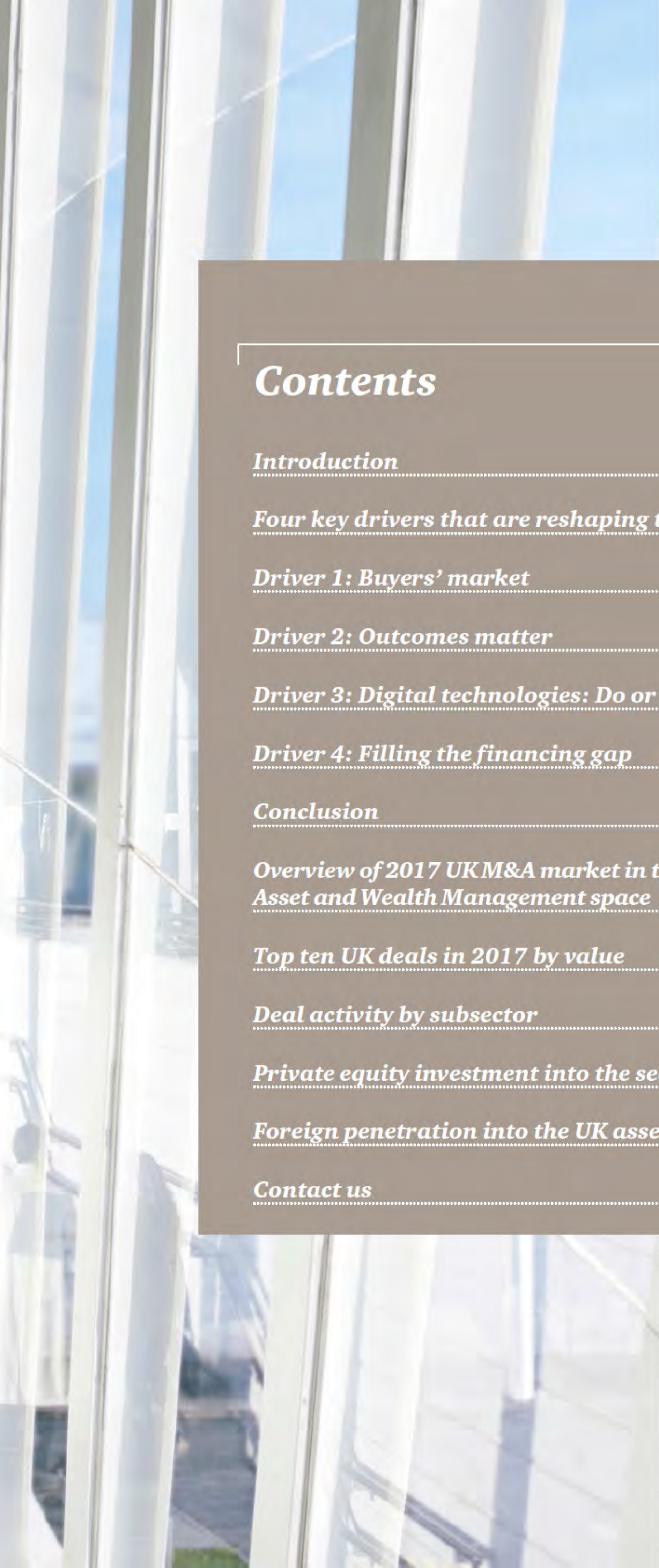
Sustaining relevance

The disruptive new realities driving the deal surge in asset and wealth management

The asset and wealth management industry is undergoing exponential change. Scale alone isn't enough to sustain long-term growth as the market becomes increasingly disrupted and demanding. That's why deal horizons are expanding. What are the new realities and new rationales driving the upturn in M&A? How can you use M&A to boost competitive relevance in this fast shifting marketplace?





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Keeping pace with exponential change

Customer expectations, relative purchasing power and regulatory change have set off a period of rapid upheaval in the asset and wealth management (AWM) industry. How can M&A help your business to keep pace?

A flurry of deal activity in the UK AWM market is spurring industry players and commentators to ask 'who is next?'

As costs rise and the pressure on fees and margins continues to mount, firms are naturally looking for opportunities to build competitive scale. Yet a narrow focus on fees and expenses, as important as these are, doesn't address the critical strategic challenges which asset and wealth managers face today. Neither will a race to the bottom on cost deliver long-term profitable growth, let alone deliver the outcomes which investors are now demanding – only improved capabilities and market access can do that.

Drivers such as product innovation, vertical integration and the need to access technology and distribution capability are framing M&A priorities and focusing deal targeting – today's M&A market is much more than just a straightforward consolidation play.

In the alternative space, independent managers are looking for an equity exit or a long-term equity partner to support with infrastructure, distribution and growth. At the same time, traditional asset and wealth managers are looking to diversify their active product range across the alternative asset class spectrum.

How can M&A help your business to meet customer and stakeholder demands for improved choice, performance and value for money? How can you move from stock picking to providing the all-round solutions institutional investors now expect? And in a market facing the disruptive pincer of robotics and artificial intelligence (AI) on the one side and the need to meet digital native demands on the other, how can you ensure that your innovation capacity and technological capabilities are up to speed?

Drawing on the framework for the future of the AWM sector set out in PwC's recently launched 'Asset management revolution: Embracing exponential change', this report explores how the four key trends that are transforming the AWM market are shaping the M&A marketplace. We also look at how M&A can help you to sustain competitive relevance in this new and unfamiliar landscape, not just in the short-term, but also in laying the foundations for long-term profitability and growth.

If you have any feedback or would like to discuss any of the issues raised in more detail, please don't hesitate to get in touch.

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Four key drivers that are reshaping the AWM market

1

Buyers' market

The shifting balance of power.

Investors increasingly have the power.

2

Outcomes matter

Boosting choice for investors through outcome-orientated solutions and products.

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New opportunities are emerging.

Driver 1

Buyers' market

The shifting balance of power in AWM

Against a backdrop of regulatory change and investor choice, fees and margins are declining across the AWM industry. Asset and wealth managers are under increasing pressure to respond to these changing market realities as cost cutting alone can only go so far in sustaining revenues and bolstering margins.

After nearly a decade of rising profits, the AWM market appears to have reached a turning and possibly even a tipping point, as for the first time since 2008, global AWM revenues and profits fell in 2016. And this drop came despite a rise in assets under management (AuM), highlighting the upward pressure on costs and downward pressure on fees.

Any weaknesses in business and operating model can no longer be masked by growth. And if we have a market correction at some point in the future, then the hit could be even bigger and would be unlikely to be offset by an increase in AuM.

Meanwhile, technology, data and analytics are opening everything up to scrutiny, including if value is truly added. Investors are pressing home their advantage to gain cheaper and more innovative solutions, to deliver outcomes that match their needs more precisely as they seek to increase returns.

This shift in the balance of power to investors will lead to many more innovative products for retail and institutional investors, often with passive products such as exchange traded funds (ETFs) at their core.

Fees are being pushed down by investors and regulators. Increased regulation, competition and new entrants are disrupting traditional value chains and revolutionising asset and wealth managers' raison d'être. Regulations are being introduced worldwide to prevent asset and wealth managers from paying commissions to incentivise distributors, leading to lower cost retail products. Meanwhile, institutional investors have the tools to differentiate alpha and beta – they will pay more for alpha but not for beta. As low-cost products gain market share, and larger players benefit from scale economies, there will be further industry consolidation and new forms of collaboration.

So seismic is the shift that industry revenues appear set to fall despite rising AuM. According to one forecast, fees will shrink by around a further 10% by 2019, compounded by a revenue decline of some 7% arising from shifts to lower fee products, leaving total revenues down by some 10%.[1] Urgent action is needed to protect profitability.

So what's behind the squeeze? In the UK market, regulatory demands for greater transparency over charges and performance for retail customers are not only creating additional costs, but also intensifying the spotlight on the value being delivered. If customers are dissatisfied, they'll naturally seek out cheaper options, heightening the competitive pressure on fees. They're also going to be looking around for other options offering better performance and value for money. Clearly, this puts the onus on your business to contain fees and boost performance. It also requires openness, education and explanation to ensure customers don't withdraw or switch their funds because of short-term fluctuations that will be ironed out in the long-term.

What kind of businesses are most affected? Among those feeling the biggest margin squeeze are active fund managers including those managing hedge funds, though multi-asset and fixed income specialist have bucked the trend by continuing to grow.

[1] The world turned upside down, Morgan Stanley Research and Oliver Wyman, 16 March 2017.

Openings for M&A

We're already seeing a fresh round of consolidation as market participants look to strengthen their position via economies of scale. Prominent transactions include Aberdeen Asset Management's tie-up with Standard Life, along with the interest in Smith & Williamson from Rathbone Brothers. As with the earlier Henderson Global Investors' transatlantic merger with Janus Capital highlights, the search for scale and market access is likely to spur considerable cross-border as well as in-country activity.

Crucially, M&A is also going to be important in developing the additional capabilities needed to improve performance and hence justify fees, along with extending reach into growth segments such as fixed income.

We are seeing the emergence of broader and more ambitious strategies for vertical integration as AWM organisations look to secure a greater proportion of the value chain across advice, platforms and investments. We expect the focus on end-customer outcomes within the new Markets in Financial Instruments Directive (MiFID II) will intensify this pressure. Vertical integration is set to be a key driver of M&A, enabling your business to gain access to a broader customer base and boost fees through better rewarded advice and portfolio construction.

Outcomes matter
Boosting choice for investors through outcome-orientated solutions and products

Nowhere is the pressure to justify fees being felt more intensely than among active fund managers – what can they offer above and beyond what's available from a passive fund and is it worth the charges?

Investors want specific outcomes rather than style-focused funds. Active, passive and alternative strategies are becoming building blocks for multi-asset, outcome-based solutions. As a result, demand for passive and alternative strategies will grow, but the place for active management will remain.

In the coming years, the value of active and passive management will be more clearly defined. As investors focus more on specific outcomes, they are distinguishing between alpha and beta and what they're prepared to pay for each more clearly, even in alternative strategies such as hedge funds. Yet they will prize true alpha from within active management where they can find it.

Passive strategies are expected to benefit the most from the move to multi-asset solutions. By 2025, we forecast that active management will represent just 60% of global AuM, down from 71% in 2016. Passives will gain huge market share, rising from 17% of AuM in 2016 to 25%, while alternatives go from 12% to 15%.

- Active AuM are likely to climb from US$60.6 trillion to US$87.6 trillion
- Passives' AuM will more than double, from US$14.2 trillion to US$36.6 trillion
- Alternatives AuM will grow from US$10.1 trillion to US$21.1 trillion[2]

While passive investments will form the foundation of multi-asset solutions, active and alternative investments that deliver alpha will be important components that boost performance.

Firms seeking to build multi-asset solutions are likely to do so through one of three strategies: building, borrowing or buying.

- Builders grow by building out their internal organisations, leveraging and developing their existing capabilities and investment talent.
- Borrowers partner with other institutions, including asset managers, wealth managers and private banks to expand their investment capabilities, access capital and take advantage of broadened distribution channels.[3] In this context, it is often the case that these partner relationships are reinforced by parties taking minority equity stakes in each other.

Buyers expand their capabilities across asset classes and strategies by acquiring people, track record and scale. For organisations developing solutions for institutional investors, having differentiated people will be key. Talented asset allocation specialists will be critical to winning mandates and a key differentiator when designing bespoke investment solutions for institutional investors. This acquisition of talent, track record or scale can be done either by team lift-outs or by direct M&A activity.

However, the liquidity-driven market environment that has favoured passive investment will peak at some point, possibly triggering a major market correction. By contrast, smart beta may be more resilient, while active strategies should be the winners.

Moreover, as quantitative easing declines there will be greater dispersion in the performance of funds, leading to increased emphasis on active stock selection and asset allocation. And as passive management takes greater market share, so the relationship between a company's fundamental strengths and its stock price is likely to weaken, leading to inefficient markets that active managers can exploit.

[2] PwC Global Market Research Centre.

[3] PwC Alternative Asset Management 2020. Fast forward to centre stage, 2015.

Openings for M&A

M&A opens up access to new products, investment capabilities and distribution models. In identifying potential targets it's important to look at your strategic strengths, gaps in your offering and what businesses offer the most favourable tie-ups.

As an active manager, you face the challenge of how to boost innovation, market access and distribution. It's also important to think about the breadth of your offering. This includes being able to offer a combination of passive and smart beta as well as active options. It also includes being able to offer the convenience of a one-stop solution for the multiple demands faced by institutional clients.

For managers with a strong passive product footprint, diversification into smart beta and active management via acquisition might be a hedge against changing macro-economic conditions and market fluctuations.

Driver 3

Digital technologies

Do or die

AWM is less insulated from the disruptive impact of technology than many industry leaders assume. Developments present some threats, but also huge opportunities for innovation and differentiation.

Nearly two-thirds (65%) of AWM business leaders taking part in PwC's latest Global CEO Survey believe that technology will completely reshape competition in their industry or have a significant impact over the next five years.[4] The big question is whether this is an underestimation of the impact and whether AWM organisations are moving far or fast enough to keep pace.

Illustrating the potential for disruption, 60% of respondents to our recent AWM FinTech survey viewed wealth management as one of the sectors most at risk from FinTech in the next five years.[5]

The fact is that technology is set to disrupt all areas of the AWM industry:

- Investment advice
- Investment process via big data analytics on research and portfolio management
- Middle and back offices functions like compliance and finance
- Client profiling, engagement and distribution

Technology will drive far-reaching change across the industry, so that in the future technology experts and data scientists will become vital for success across the business.

Technology and distribution

Technology will open up new distribution channels, which are especially important in targeting otherwise hard to reach digital native millennials. The immediate impact of digital distribution and on-line robo-advisor services is likely to be an increase in demand for simpler to understand passive funds. Yet as AI capabilities develop, we'll see the emergence of more sophisticated and customised product offerings. These developments won't replace human fund managers, rather they will augment their capabilities by enabling them to capture and draw on analysis from a much bigger and richer array of relevant data.

Technology and portfolio management

While exponential advances in computing power, predictive analytics, AI and big data are set to aid every area of investment research, people will generally still make the final investment decisions. The days of research teams with scores of analysts will soon be over. Instead, AI-powered robotic processes will monitor and analyse every public company, as well as other financial data. They can also process supply chain analysis and the other new forms of data that AWM organisations are scrambling to source.

Already, some alternatives managers are successfully leveraging quantitative strategies and regard themselves first and foremost as technology companies.

We expect this trend to accelerate. AWM organisations will generate alpha by harnessing the power of the largest data sets and the computational capacity to process data, identify correlations and back test investment strategies. Investment analysis is a task inherently suited to computers – human analysts will find themselves challenged.

Technology will also simplify risk management. In the past, it was difficult to run a risk model. Now algorithms enabled by cloud-based computing make it easy and cost effective to calculate risk ratios and 'what if' scenarios.

Technology and cost control

Pressure on costs will drive comprehensive automation and outsourcing of middle – and back-office functions. The large regional and global wealth managers and the global asset managers will either automate their in-house operations or outsource to a third-party provider. Smaller firms will outsource to the big asset servicing firms or even to RegTech utility solutions that could emerge in areas such as know-your-customer (KYC), transfer agency, trade processing and risk and tax reporting. Blockchain networks will also emerge and further transform the industry in trading, account and asset servicing.

4 Findings from AWM industry, PwC 20th Global VEO Survey (https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2017/gx/industries/asset-and-wealth-management.html)

5 Redrawing the lines: FinTech's growing influence on asset and wealth management, PwC2017.

Openings for M&A

M&A offers an important way to gain access to cutting edge innovation – talent as well as technology. The openings include investment in or full acquisition of FinTech start-ups. With multiple acquisition opportunities out there, effective targeting requires a clear assessment of the threats opened up new technology, where you're best able to capitalise on the opportunities and the operational 'pain points' that a specific FinTech acquisition could address, rather than developing in house.

Filling the financing gap
The rise of the Alts and Multi-Alts Managers

New opportunities for profitable growth are emerging. Asset and wealth managers are filling financing gaps that have emerged since the global financial crisis. They'll continue to provide capital for new types of real assets and new forms of corporate financing, learning new skills as they do so. They'll also play a vital part in bridging the retirement savings gap.

While this trend is already firmly established (and featured in Asset Management 2020), it will offer AWM organisations new opportunities as some areas of their businesses become less profitable and the need to generate alpha becomes more paramount. For example, over the next ten years there's great potential for AWM to generate alpha from financing real assets. At the same time, demographic trends will drive growth in AuM globally.

There are huge financing needs. PwC has estimated that close to US$78 trillion will be spent globally on infrastructure from 2014 to 2025.[6] And in Europe and North America, there's a shortage of funding for small and mid-sized businesses, as banks have pulled back from lending in the wake of the Basel III capital restrictions and Dodd-Frank Act.

Investment firms will provide capital in areas such as trade finance and peer-to-peer lending. They will be more active in all aspects of syndicated lending activities traditionally undertaken by banks (e.g. arranging a syndicate of investors for large infrastructure projects).

Turning to pensions and individual retirement needs, there's a funding gap in developed and developing markets alike. This is estimated at US$41 trillion by the Geneva Association, the insurance industry think tank.[7]

From bridges to power grids and retirement homes

We anticipate soaring growth in real assets – mainly infrastructure and to a lesser extent real estate. Over the five years from 2015-2020, we forecast a 37.3% per annum growth rate in infrastructure, slowing to 15.0% from 2020-2025. Infrastructure assets will expand more than tenfold, from US$0.3 trillion in 2015, to US$3.4 trillion in 2025. Alternatives as a whole are likely to expand, albeit at a lower rate of 9.0% from 2015-2020, followed by 8.7% from 2020-2025.[8]

As people in Latin America, Asia and Africa migrate to the cities, there's an urgent need for water, power and transportation facilities. Meanwhile, leaders in the US, EU and the UK have ambitious infrastructure spending plans. While infrastructure investing has been dogged by political and other issues, such is the funding gap that this asset class is likely to grow.

Infrastructure investors are likely to tackle a broader range of opportunities and risks. The transition from pure-play, low-risk infrastructure will require new skill sets and capabilities in deal sourcing, evaluation and asset management.

AWM organisations will also expand their involvement in financing real estate. Investors are underweight in the sector, as measured by the Global Industry Classification Standard, particularly in Europe and Asia. They'll make greater use of ways to gain exposure such as REITS and expand more in non-traditional areas such as rented housing, logistics, multi-generational housing and affordable housing.

6 Capital project and infrastructure spending: outlook to 2025 (https://www.pwc.com/gx/en/capi tal-projects-infrastructure/publications/cpi-outlook/assets/cpi-outlook-to-2025.pdf)
7 The Pension Gap Epidemic, Challenges and Recommendations, November 2016. (https://www.genevaassociation.org/media/954342/the-pension-gap-epidemic.pdf)
8 PwC Global Market Research Centre.

Replacing retrenching banks

As banks' lending activities continue to be restrained by capital and liquidity-related regulations, so asset managers have been moving into the gaps. While the Trump administration's stated desire to roll back regulation may increase bank lending in the US, this trend remains powerful in other parts of the world. Within the EU, for example, there's a drive to increase the role of capital markets and therefore asset managers in funding business. The Capital Markets Union aims to establish the building blocks of a unified capital market by 2019.

Asset managers have also been expanding into private debt. They're funding real estate, private equity, SMEs and start-ups through private debt and peer-to-peer platforms. According to Preqin, the private debt industry managed assets of US$595 billion in June 2016, having quadrupled in size since 2006.

Taking responsibility for retirement

Finally, AWM organisations will play a growing role in investing for retirement. All over the world, governments are relying on individual retirement accounts and defined contribution plans to help people save for retirement. Expansion in these assets as the world population builds wealth and ages is one of the main forces driving our optimistic forecasts for growth in AuM.

Even Asia's economies have rapidly ageing populations. Japan and China are greying fastest, but Singapore, Hong Kong and Thailand also have a problem. Pension provision is patchy and governments recognise the need for private pensions, although in many countries domestic tax legislation doesn't yet encourage pension saving.

New opportunities

As traditional forms of finance retrench, so new opportunities are emerging where innovative asset and wealth managers can create value. These include, for example, operational excellence in financing and management of infrastructure and real estate, as well as product development that allows more investors to access these asset classes. There are also huge opportunities in facilitating pension saving for an ageing global population as defined contribution plans continue to grow in emerging markets.

Turning to Latin America, several of the leading countries have had mandatory defined contribution systems in place since the second half of the 20th Century.

In addition to pensions, as longevity rises people will need to save more to spend on healthcare, especially in the US.

AWM organisations have great opportunities if they're innovative. They must design new products and services that meet changing needs and build the capability to operate locally, regionally and global – to think globally but deliver locally.

In turn, private equity and new types of private debt funds are set to play an ever increasing role in strengthening and sustaining yields, and hedge funds again following better recent performance. Specific openings for pension and sovereign wealth funds include infrastructure investment. While many banks are withdrawing from long-term asset classes in the wake of increased liquidity requirements, the long-term liability profile of pension funds makes them ideal candidates to step into the breach.

Openings for M&A

M&A not only offers an ideal opportunity to extend your reach into alternative asset classes, but also to build the dynamic building blocks needed for a local, regional and global alternative product range.

Many shareholders of smaller and niche alternative asset management players would welcome the chance to realise the value of their holding through a sale or to augment their business by being supported by an asset manager with a global compliance and distribution platform. In this regard, recent years have seen the emergence of multi-manager platforms such as AMG, DYAL, Tetragon, Northill and others, which allow independent alternative asset managers to keep their brand and independence while leveraging a global platform.

Mid-sized asset managers are also increasingly becoming an attractive target themselves for Private Equity funds given their strong cash flow and balance sheets.

Conclusion
The tipping point

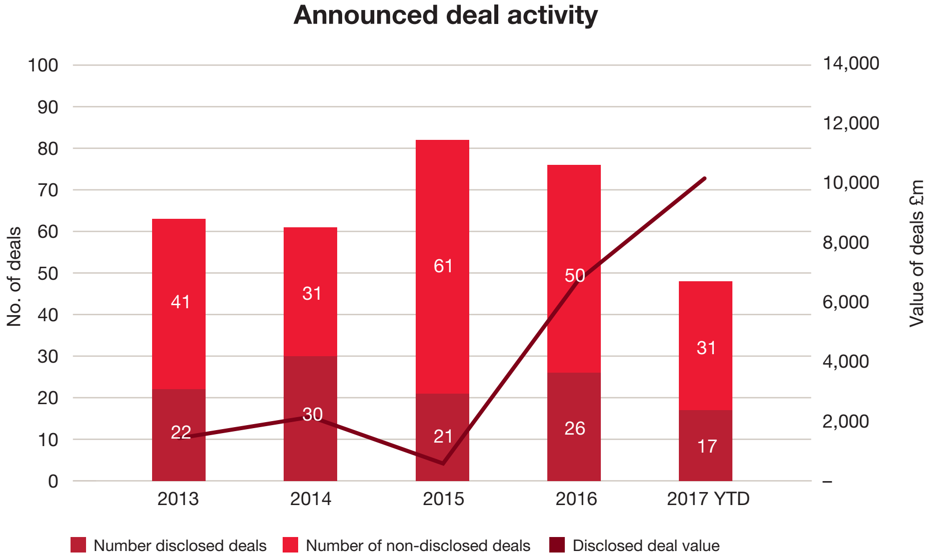
Any surge in deal activity can create its own momentum. Speed is certainly of the essence in this market as the most appropriate targets and tie-ups for your business may soon be snapped up.

Yet in many ways this latest wave of M&A is different as it's also geared to dealing with disruption and addressing changing customer expectations over the long-term. Effective deal strategies need to be underpinned by a clear assessment of where and how you want to compete in this fast-shifting marketplace.

The results of these assessments could lead you to seek targets that you might not have considered before – new areas of the value chain or tech start-ups for example. This is an opportunity to transform. But if you're unclear about your strategy or you wait too long, you could find that your bargaining position is weakened as the flow of business dries up – a merger of equals it won't be.

Overview of 2017 UK M&A market in the Asset and Wealth Management space

Figure 1: Announced UK asset and wealth management activity



Source: Thomson Reuters, Dealogic and PwC analysis

Note: 2017 year to date (YTD) is to the end of September 2017.

Disclosed deal values have reached record levels in 2017, totalling £11.4bn[9] in the year to September. The mega-mergers have continued, with last year's **Janus/Henderson** £5bn merger being superseded by **Aberdeen/Standard Life**'s £11bn tie-up.[10]

Deal volumes have been lower than in the previous year, with only 48 transactions recorded in 2017 YTD. At the current rate, we expect to fall short of 2016's count of 76, and likely behind 2015 as well. The number of deals completed reflects the level of activity more accurately than deal values, as the value of most transactions continues to be undisclosed.

[9] Henderson Global Investors and Janus Capital announce intention to merge, 3 October 2016 (https://www.janushenderson.com/sgpi/Campaign/143/henderson-global-investors-and-janus-capital-announce-intention-to-merge)

[10] Merger of Aberdeen Asset Management and Standard Life Completes, 14 August 2017 (https://www.standardlife.com/dotcom/news-and-publications/2017/MergerOfAberdeenAssetManagementAndStandardLifeCompletes.page)

Top ten UK deals in 2017 by value

Figure 2: Top 10 UK asset and wealth management deals in 2017 (YTD)

Target	Buyer	Buyer region	Deal value £ (millions)
Aberdeen Asset Management PLC	Standard Life PLC	UK	11,000.00
OM Asset Management PLC	HNA Capital (US) Holding LLC	US	217.4
Hargreaves Hale	Canaccord	UK	80.0
Thesis Asset Management PLC	Regit Bidco Ltd	UK	51.5
Scalable Capital Ltd	Investor Group	UK, Germany	36.0
Sigma Asset Management Ltd	Succession Group Ltd	UK	20.6
LEBC Group Ltd	BP Marsh & Partners PLC	UK	7.1
Parker Sage Independent Financial Advisers	AFH Financial Group PLC	UK	5.6
Eunisure Ltd	AFH Financial Group PLC	UK	4.5
Paul Jones Financial Services Ltd	Succession Group Ltd	UK	4.0
			11,426.7

Source: Thomson Reuters, Dealogic and PwC analysis

Note: OM Asset Management PLC was a minority investment, the remainder are majority or 100% stakes. LEBC Group raised its interest to 60.87% from 43.03%.

The landmark **Aberdeen Asset Management** and **Standard Life PLC** deal kicked off 2017, followed by the completion of the **Janus/ Henderson** merger, which was announced in the latter part of last year. These two recent deals are evidence of our M&A drivers affecting all parts of the market, as even the largest players look to consolidation to help protect their future. The top ten deals of 2016 totalled only £7.1bn, highlighting the significant increase in mega-deals in 2017.

In the year to date, 2017 has delivered a smaller volume of high value deals than the prior year. We have seen limited cross border M&A at the top end of the market, with the majority of deals being domestic acquisitions (see Figure 5).

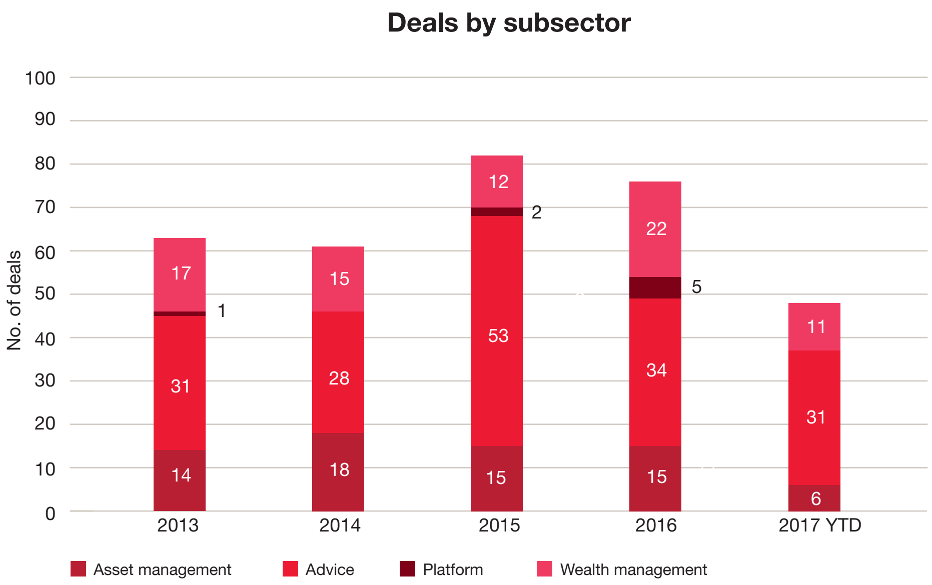
Succession Group have completed a number of acquisitions this year; Sigma Asset Management joined the family in the same year as Tim Burt Ltd, Prosperitas Independent Financial Advisers, and Norris & Fisher Independent Financial Services. With combined AuM of £520m, the businesses were acquired for £20.6m, continuing the group's strategy of IFA integration whilst remaining independent in its approach[11].

Meanwhile, listed **AFH Financial Group plc** made two sizeable acquisitions in financial planning firm Eunisure Limited. This gives AFH significantly increased distribution capacity, which together with Parker Sage IFA added over £2m pro forma annualised EBITDA. According to CEO Alan Hudson, acquisitions will continue, as they develop their strong pipeline of opportunities[12].

[11] Succession Group Acquires Four Firms Adding Over £500m In Funds Under Management, 2 August 2017 (http://www.successiongroup.co.uk/press-release-succession-acquires-4-firms/)
[12] Acquisition announcement for AFH Financial Group plc, 2 June 2017 (http://www.afhfinancialgroup.com/html/announcements.html)

Deal activity by subsector

Figure 3: UK asset and wealth management deal volume by subsector



Source: Thomson Reuters, Dealogic and PwC analysis

Mega-mergers aside, elsewhere in **asset management**, Invesco's acquisition of Source[15], a leading provider of ETFs, is evidence of consolidation bringing access to an enhanced combined product set and technological innovation.

There has been a notable absence of **platform** deals this year. Last year year, Aegon's acquisition of Cofunds for £140m, was the sixth largest disclosed value deal, and made Aegon one of the largest advised platform providers in the UK. Cofunds brought £77.5bn of AuM to the group[16]. This deal is evidence of consolidation, in part due to technological pressures in the industry: Legal & General's CFO said at the time that technology issues played an important part in the decision to sell, given that Cofunds requires significant systems upgrades to make the most of its leadership position in the UK platform market[17].

Acquisitions in the **advice** segment continued to dominate the volume of transactions this year, accounting for 65% of the deals (2016: 45%) in a sector which is experiencing rapid consolidation. Succession Group's acquisition of Sigma Asset Management for £20.6m was the largest deal in this segment, and was one of four acquisitions made by the group this year.

The **wealth management** industry was marked by two large deals this year: the public to private takeover of Thesis Asset Management PLC, valued at £51m[13], and the acquisition of Scalable Capital Ltd by an investor group including Black Rock Investment Management for £36m[14]. BlackRock's EMEA COO Patrick Olson commented at the time of announcement that the investment in the robo-advisor will allow them to meet the increasing technological needs of customers in shaping their future business models. The investment adds to BlackRock's existing investments in digital wealth services (Aladdin Risk, iRetire, iCapital and FutureAdvisor).

[13] Recommended Cash Offer for Thesis Asset Management plc, 30 June 2017 (http://www.thesis-plc.com/wp-content/uploads/2017/06/Project-Tiger-Offer-Document-FINAL-56185486-Legal_.pdf)

[14] BlackRock to Take a Minority Equity Stake in Digital Investment Manager Scalable Capital, 20 June 2017 (https://uk.scalable.capital/press/BlackRock-to-take-a-minority-equity-stake-in-Scalable-Capital) StandardLifeCompletes.page)

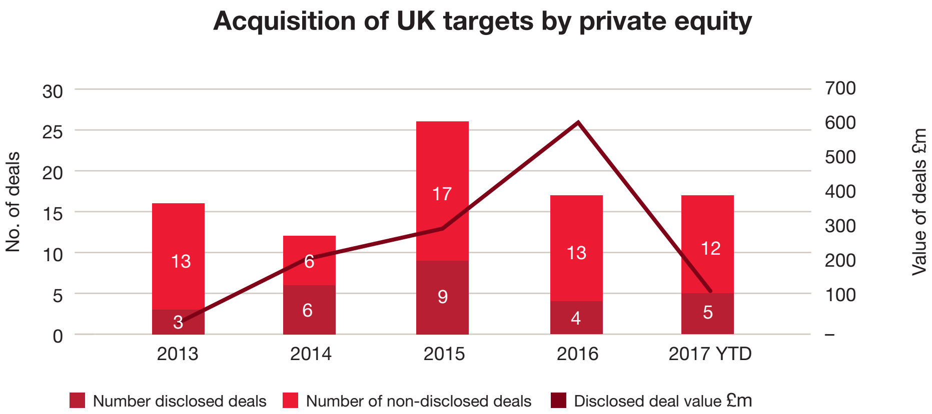
[15] Invesco to expand its ability to meet client needs in EMEA and globally by acquiring Source, a leading independent provider of ETFs, 27 April 2017 https://www.invesco.com/corporate/dam/jcr:16f752e2-a4b6-4651-a49f-200aa6a760ba/press-release-20170427b.pdf)

[16] Legal & General Grp – Legal & General To Sell Cofunds And Ips To Aegon, 11 August 2016 (http://www.legalandgeneralgroup.com/investors/news_releases/releases.asp?newsid=2931)

[17] Legal & General Grp – Legal & General To Sell Cofunds And Ips To Aegon, 11 August 2016 (http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/LGEN/12927086.html)

Private equity investment into the sector

Figure 4: Acquisition of UK targets by private equity



Source: Thomson Reuters, Dealogic and PwC analysis

The analysis in Figure 4 focuses on the types of buyers that have been active in the AWM market so far this year.

Private equity (PE) interest in the sector remains strong, reaching levels consistent with the prior year. PE buyers have so far invested in 18 of the deals made so far; this means they are involved in 37% of the transactions this year so far, compared with only 22% in 2016.

Permira continued to invest in the sector, bolting on Midas Investment Management to Tilney Investment Management[18], having bought Towry Holdings Ltd last year.

PE investment has been generated from beyond the UK, for example from India in Avendus Capital's acquisition of Ocean Dial Asset Management Ltd[19]. According to the co-founder of Avendus, the acquisition would bring in investors from new geographies as Avendus seeks to be a leader in the public equities space.

Thesis Asset Management was acquired by a consortium of several private equity vehicles and property investors; having experienced lower profitability in recent years[20]. This appears to be a deal driven in part by margin pressures.

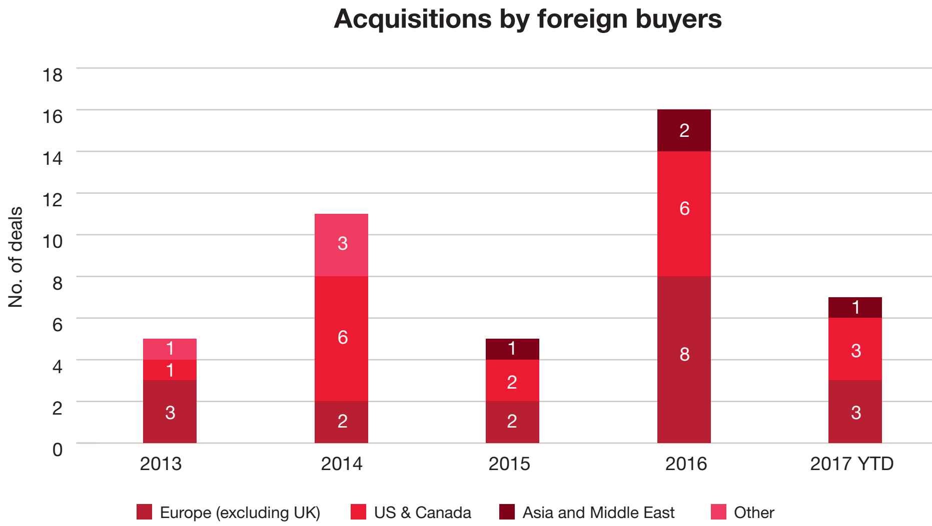
18 Tilney acquires Midas' £162m wealth business, 3 August 2017 (http://citywire.co.uk/wealth-manager/news/tilney-acquires-midas-162m-wealth-business/a1039559)

19 Avendus Capital to acquire UK-based Ocean Dial Asset Management, 9 August 2017 (oceandial.com/files/file/download/id/607)

20 Who exactly is behind the £47 million bid for Thesis?, 27 June 2017 (http://citywire.co.uk/wealth-manager/news/who-exactly-is-behind-the-47-million-bid-for-thesis/a1027543)

Foreign penetration into the UK asset management market

Figure 5: Acquisitions by foreign buyers



Source: Thomson Reuters, Dealogic and PwC analysis

As indicated earlier, cross-border activity has dipped in 2017, following the bumper year in 2016. M&A activity in the UK is largely marked by consolidation, which is focused on the domestic market rather than expansion into new geographies.

Europe and the US continue to be the main source of inward investment into the UK AWM market. Along with the acquisition of Source by Invesco, Liquidnet's acquisition of analytics provider OTAS Technologies[21] is another instance where M&A is being used to boost technological capabilities.

[18] Liquidnet Further Enhances Trading Platform with Acquisition of OTAS Technologies, 17 March 2017 (http://www.liquidnet.com/#/news/liquidnet-further-enhances-trading-platform-with-acquisi tion-of-otas-techno/)

Contact us

We would welcome the opportunity to speak with you about any of the material presented in this publication. Please feel free to reach out to either of us below or your local PwC representatives.

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