

Asset Management

# The day after tomorrow

Continuing the PricewaterhouseCoopers perspective series on the global financial crisis



‘The basic rule of storms is that they continue until the imbalance that created them is corrected.’

The Day After Tomorrow (2004)

# Themes and imperatives for a new world

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# executive summary

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While the unprecedented crisis of late 2008 revealed clear flaws in the banking system, the asset management sector was shown to be considerably more robust. Assets under management did shrink, of course, and individual cases of malpractice arose, but the reputation of many firms did not suffer unduly. Nevertheless, the consequences of the crisis on the sector are likely to be felt at a profound level and for a long time. Changes in regulations, investor preferences and within the industry itself will provide a range of opportunities and threats that no asset management firm can afford to ignore.

PricewaterhouseCoopers<sup>1</sup>, in the second of its ‘day after tomorrow’ perspective series, sets out below some of the most critical issues the asset management sector faces today and in the future:

#### **Business models are under stress**

Many businesses are still in full survival mode and will examine ways of further reducing costs in the short-term to maintain profitability or contain losses. But they will also need to evaluate exactly what sustainable cost management means for them. Market volatility may encourage firms to seek new fee models that are more predictable over the long-term and not highly correlated to the market. A key variable cost – human resources – will remain a focus and firms must decide which sections of their staff contribute

directly to the bottom line. This stress and the need for capital could force some institutions, especially banks, to reconsider their long term commitment to asset management. Successful and opportunistic independent asset managers and insurance companies could benefit from these situations to grow their asset base and enhance their skill sets.

#### **How will investors react in the post-crisis environment?**

Institutional investors will increase their due diligence efforts and asset managers will need to better articulate risk and reward to investors. Investors will also want to see more evidence of enhanced management of risk, in its broadest sense. Allocations to equity investments are likely to increase as investors seek to

rebalance their portfolios after a period of declining values in their equity allocations. However, the investment strategies of alternative products will be examined given relatively poor performance by some. Products that contain capital guarantees and other kinds of embedded “insurance” will remain popular.

#### **Fiscal pressure will change the shape of the industry**

Asset managers, in common with the rest of the financial services sector, will be significant contributors to tax-raising efforts and can expect more rigorous enforcement of tax rules, swifter closure of loopholes and a more adversarial environment. Asset managers will need to consider how they should position themselves while remaining protected

<sup>1</sup> “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

from excessive tax burdens. There will be renewed focus on privacy laws and tax evasion, mainly relating to individuals.

**A new spirit of co-operation between the G8 and G20 nations will have consequences for most asset managers**

There will be a particular focus on the activities of non-co-operative and lightly regulated domiciles as the possibility of co-ordinated sanctions now exists. Any activity that is viewed as systemically important to the financial system will attract regulation and oversight. It may be that unregulated offshore business will reduce substantially, at least for a period, until the stance of politicians and regulators is

clear or until jurisdictions raise levels of transparency to meet new requirements.

**How will the regulatory maelstrom impact asset managers?**

Under political pressure, regulators will target investment firms directly, predominantly those in the alternatives space. Many mainstream financial institutions may find that connections with “light-touch” financial centres will no longer be commercially viable. The European Union has already taken steps to impose regulation on alternative investment funds and managers, and this may be replicated elsewhere. There is, however, less pressure on regulated mutual funds, where the regulatory construct has not led to widespread failures. However, some mutual fund vehicles – such as the UCITS model in

Europe – are steadily broadening the range of permissible instruments, which could weaken the model.

**Is the “new model” in financial services under pressure?**

Over the last few years, capital has no longer flowed solely to the largest, full-service institutions, which both deploy and manage the assets. A model evolved whereby the deployment of assets and the management of them were often carried out by separate entities. Significant new entities emerged using this model, particularly in the private equity space. But there is a possibility that asset management now returns to the days where funds were simply awarded mandates to run and had no deeper involvement in the capital markets.

There could be a flight to quality by investors – to asset managers that are owned or backed by FS groups that have financial strength.

#### **Deleveraging in the banking system will affect asset management**

Asset management firms are not highly leveraged at the company level, but they have a high natural gearing to markets, so in a downturn their earnings tend to be hit disproportionately. This leaves them exposed to potential breaches of covenant and other cashflow and balance sheet difficulties. The biggest impact of deleveraging is on those hedge funds and private equity firms which depend on debt to gain access to transactions and magnify successful investment strategies. Without access to affordable leverage with reasonable

levels of collateral, their business models may struggle.


#### **Compensation in asset management is likely to take its cue from banking**

If management and performance fees continue to decline, there will be an imperative to implement a long-term review of compensation. Where the asset manager is owned by a banking parent that has accepted state financial assistance, the influence of government is likely to make itself felt even at the asset management level. The continuing ability of hedge funds with illiquid strategies to earn performance fees from unrealised profits will be the subject of significant challenge from investors and consultants. In private equity, the size of the management fee on large commitments may be challenged.

Overall, the fact that the asset management industry is likely to be less constrained by government interference or direct regulation on compensation is likely to be a source of competitive advantage for the asset management industry. Most countries have lower rates of tax on capital gains, so the more flexible remuneration as regards share arrangements that the asset management industry can offer is also a competitive advantage.

#### **The re-awakening of Asia**

Patterns of consumption and saving in both the West and emerging markets are shifting. The West is starting to consume less and save more, which implies slower future economic growth. Meanwhile Asia, less affected by the global crisis and less encumbered by



legacy debts, should grow at a faster rate in the foreseeable future. A one-off re-rating of Asian stocks in the short-term could be complemented by long-term growth at a higher trend rate than in the West. Increased savings rates, together with the need to restore assets in retirement accounts due to the significant market losses, in Western economies will provide opportunities for asset managers to exploit this growth.

# one

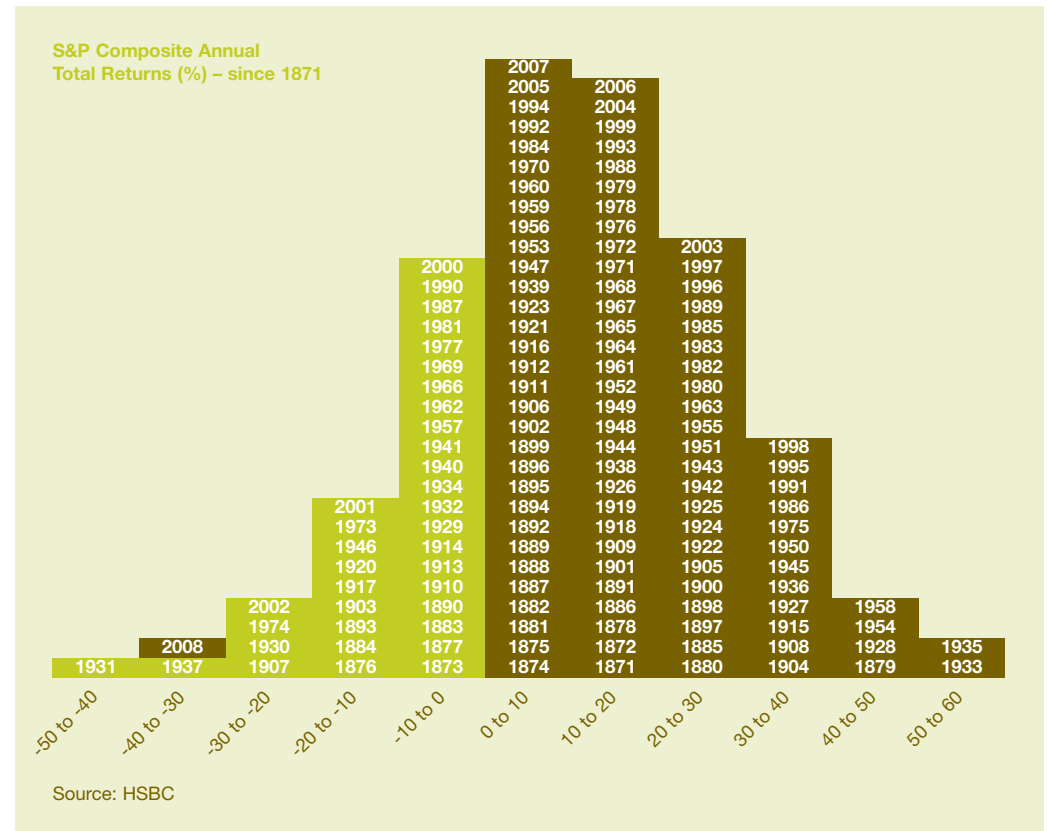
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## Business models under stress

Asset management firms are accustomed to economic cycles. But rarely has a downcycle hit so suddenly and with such force as in the second half of 2008. A combination of sharply falling markets and investor redemptions in the space of just a few months produced a reduction in assets managed of 30-40%, and more in some cases.

Market volatility is likely to persist, as it has done following many sharp downturns. The graph opposite shows that the two best and two worst years for the S&P both occurred in the 1930s, following the crash of 1929. It is possible that the same level of volatility may resurface in the years to come as central banks first reflate their economies and then clamp down on monetary policy as they recover. This has the potential to create start-stop economies in which asset prices remain unpredictable.

This may encourage firms to seek new fee models that are more predictable over the long-term and not highly correlated to the market. Some firms may look to break the link between assets under management and fees by introducing a fixed service charge.



An ability to smooth returns would help to ensure that asset management firms do not have to cut too deeply in times of market distress, which impedes their ability to benefit from a recovery in markets.

Many businesses are still in full survival mode and will examine ways of further reducing costs in the short-term to maintain profitability or contain losses. But they will also need to evaluate exactly what sustainable cost management means for them. Making indiscriminate cuts, cutting too deeply or not enough will be detrimental to the business model. Each firm will need to develop its own view and methods of implementing the view – there is no template in this environment.

At the same time, those firms that are able to invest in key areas such as compliance, risk management and reporting infrastructure to cope with new, possibly draconian, regulation will derive a direct benefit. So investment, where possible, must be reallocated in a highly targeted way. Evidence of this already exists in the alternatives sector.

In some cases, asset management firms will postpone entry into new product areas and overseas markets. Although these markets may hold out the possibility of greatest medium and long-term growth, survival will inevitably come before expansion.

A key variable cost – human resources – will remain a focus for some time to come and firms must decide which sections of their staff contribute directly

to the bottom line and which do not. The process of shedding less productive labour will be easier for firms in the Anglo-Saxon world to address than in countries with more extensive labour-market regulation, particularly continental Europe. Where reduction of labour is challenging, reallocation of resources should, at the very least, be considered. Spending on marketing and sales, administration, advisers and consultants will be pared to the bare minimum and may only rise slowly over a period of several years.

In the EU, new regulation on the horizon (UCITS IV) offers the prospect of a single European management company for all regulated funds and the chance to rationalise often sub-economic fund ranges by using the new fund merger

provisions. These potentially offer significant cost savings.

The effect of lower revenues and stress on profitability levels may lead some firms to look at the disposal of non-core businesses or of their entire asset management business, although the bulk of any disposals are likely to continue to be made by banks seeking to raise capital. As they have been less impacted by the crisis, independent fund managers and insurance companies could leverage these disposals to grow their asset base and enhance their skill sets.



# two

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## Investors: How will they react in the post-crisis environment?

Institutional investors have great cause for grievance in the wake of the credit crisis, as many suffered sharp losses from banking products that were poorly understood by buyer and seller. Institutions are likely to seek safe havens in well-capitalised and well-run companies. Smaller asset managers, with insufficient infrastructure, are likely to struggle to attract significant assets from large institutions.

Institutional investors will increase their due diligence efforts and asset managers will need to better articulate risk and reward to investors. Larger asset management firms may be better equipped to meet demands on requests for information, transparency and risk management reporting than smaller competitors. All firms will need to bear in mind that less can be more. There is an inverse relationship between the quantum of data and its ability to be understood, and investors are increasingly aware of this. Firms that strive to neutralise conflicts of interest are also likely to be rewarded.

There will be particular attention paid to counterparty and liquidity risk. Ensuring that assets are segregated on the balance sheet of the counterpart will be

critical and asset managers should be aware of the sensitivities. At the same time, investors have suffered from limited liquidity in some of their investments. This will make them think twice about which asset classes and which asset managers to select.

Investors will also want to see more evidence of enhanced management of risk, in its broadest sense. The ability to explain how risk is managed and controlled is now as important to sceptical investors as information about specific risk measures relating to asset classes and portfolio construction. In the latter half of 2008, it became evident that scenario planning by some managers had failed; they either did not anticipate or did not prepare for an extreme range of market conditions. Investors will now

ask how well managers understand their own strategies, and asset management firms will need to be more persuasive than they have been in the past on this point if they are to attract and retain assets. Where investor scepticism remains – such as in illiquid or complex strategies where full transparency is difficult to provide – managers will increasingly employ third-party assurance to introduce an independent view.

Allocations to equity investments are likely to increase as investors seek to rebalance their portfolios after a period of declining values in their equity allocations. However, the investment strategies followed by many alternative products will be examined given their relatively poor performance during the

crisis. Many alternative products were found to be correlated to other asset classes – particularly equities – bringing into question the rationale for investing in some of them. Funds of hedge funds, designed to provide diversification benefits in return for an additional layer of fees, may be particularly vulnerable to negative investor sentiment. The fee model for hedge funds may continue to evolve from the traditional 2+20 model, while investors will continue to demand structures that limit risks – such as managed accounts, which help restrict operational risk.

Equally, retail investors are nursing significant losses although they have not generally lost money from systemic failures. Nevertheless, they may remain suspicious of markets – particularly equity markets – for some time to come. Also, financial intermediaries and other third party distributors, especially banks, will have to re-establish trust and demonstrate their value added. Politicians will make sure retail investors' interests are placed at the core of industry mission statements. Products that contain capital guarantees and other kinds of embedded “insurance” will remain popular.

# three

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## Fiscal pressure to change shape of industry

Taxes in the US, much of Europe and the UK will have to rise to repair the fiscal deficits. Asset managers, in common with the rest of the financial services sector, will be expected to be significant contributors to these efforts and can expect a more rigorous enforcement of tax rules, swifter closure of loopholes and a generally more adversarial environment.

Western governments are running budget deficits and debt to GDP ratios which are at historic levels, as the Table 1 below shows.

Government budget deficits around the world

Global budget deficits on % of GDP		
Country	Budget Balance % of GDP 2009	Govt debt to GDP rates (2008)
United States	-13.2	73%
Japan	-6.8	173%
China	-3.8	18%
Britain	-13.8	59%
Canada	-2.3	63%
France	-6.6	73%
Germany	-4.6	65%
Italy	-5.2	113%
Netherlands	-4.1	54%
Spain	-9.6	44%
Russia	-8.4	6%
Switzerland	-3.1	48%
Singapore	-4.1	96%

Source: Middle column – The Economist, Volume 391 Number 8636.  
Right column - Source: OECD Economic Outlook 84 database

There is an emerging moral dimension to this debate: while tax issues are most acute for the banking sector – in which many governments around the world now possess a significant stake – there is a belief at political level that government has helped the entire financial services industry to survive and in return it should now pay its fair share of taxes.

Asset managers will need to consider how they should position themselves in this new environment while protecting themselves from excessive tax burdens. Despite co-ordinated efforts such as by the G20 (see chapter four), tax raising takes place at national level and frequently ends in disputes between countries seeking to take a bite from the same cake, with taxpayers caught in the middle.

Dispute resolution procedures between sovereign states exist but are cumbersome, costly and time-consuming. They are best avoided by taxpayers if possible and good tax “housekeeping” in areas such as transfer pricing will be essential.

Another aspect of the unprecedented fiscal pressure to consider is the renewed focus on privacy laws and tax evasion, mainly relating to individuals. Few asset managers will be unaffected by this; either because of increased compliance requirements (the Qualified Intermediaries regime, the new EU Savings Directive or the need to meet information exchange requirements) or changes in client preferences as a result of these developments.

The tax net is also closing in on wealthy investors and their advisers. At the end of last year, the OECD launched a paper on high-net-worth individuals with a view to bringing them back within the sphere of onshore taxation. Amnesties and other encouragement may be offered to encourage them and their advisers to be more transparent and volunteer current, relevant and reliable information. Wealth managers and other advisers will need to follow the progress and outcome of this process and keep abreast of current political and regulatory thinking.



# four

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## G8, G20: A new spirit of co-operation (with consequences for asset managers)

The EU, the Group of Eight developed countries (and Russia), and the Group of 20 have all been pressed into service, as never before, to produce a co-ordinated response to the crisis. As one commentator puts it: “The main governments have acted on the principle that unless they hang together and co-operate, they will all hang separately.”

What are these areas of increased co-operation? They include proposals to strengthen exchange of information, financial supervision and regulation, including for the first time regulating “systemically important hedge funds”. The groups wish to promote global trade and investment, while resisting protectionism.

There will be a particular focus on the activities of non-co-operative and lightly-regulated jurisdictions and there is now the possibility of co-ordinated sanctions.

A key message from the G20 is that any activity that is viewed as systemically important to the financial system will need regulation and oversight. In this sense, the G20 is signalling that significant parts of the asset management industry will be regulated, where previously they have not been. As noted in chapter five, proposals for regulating the hedge fund and private equity industries are being drafted and will impact the business model and cost base for these parts of asset management. It remains to be seen how far these measures will impact fundamental financial viability.

As regards lightly-regulated domiciles, asset managers will need to think carefully about where they locate funds. Some clients may shun particular jurisdictions and, conceivably, asset managers may run reputational risk by continuing to maintain operations in certain locations. It may be that unregulated offshore business will reduce substantially, at least for a period, until the stance of politicians and regulators is clear or until it is evident which jurisdictions have raised levels of transparency to meet new requirements.

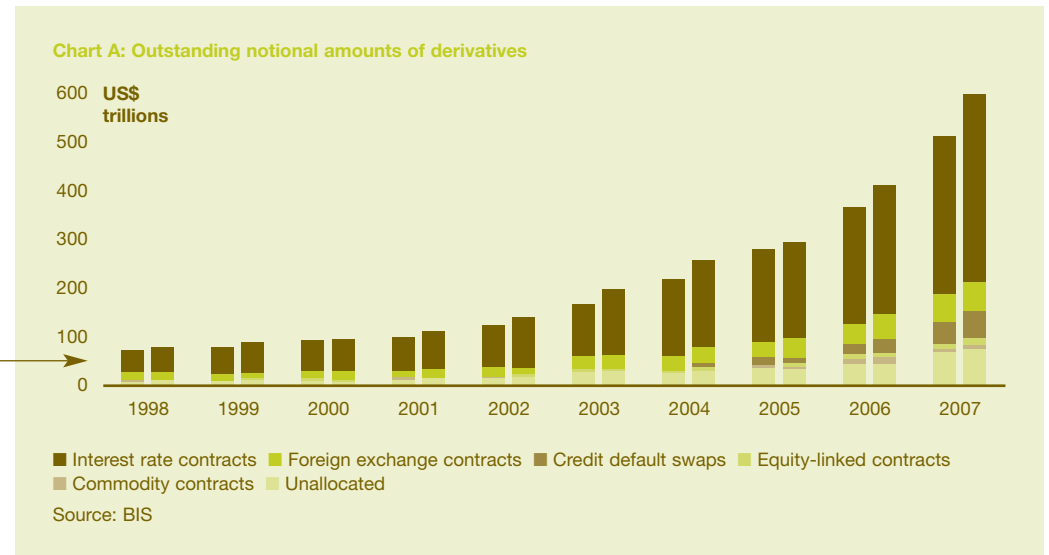
# five

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## How will the regulatory maelstrom impact the asset management sector?

The widely-held view of the past few years that regulating the providers of finance was sufficient to prevent systemic risk, has been revised. Under political pressure, regulators will target asset management firms directly, predominantly those in the alternatives space.

Total Global GDP = \$55 trillion



With respect to offshore centres, many mainstream financial institutions may find that connections with “light-touch” financial centres will no longer be commercially viable. Asset managers will need to think carefully about where they locate funds, with their reputation possibly at stake and with the risk of punitive measures being taken against them. It may be that offshore business will reduce substantially, at least for a period, until the stance of politicians and regulators is clear or until it is evident which jurisdictions have raised levels of transparency to meet new requirements.

The fact that asset management firms do not typically have assets on their balance sheets no longer provides them with immunity from increased capital requirements and regulation. They are seen as systemically important and, as such, fall into regulators’ catch-nets.

The perception that private equity, hedge funds and real estate firms’ involvement in prime brokerage, leveraged loans and derivatives can create systemic risks, has created an imperative to regulate these sectors to a much higher degree. The draft EU Directive and recent announcements by the Obama administration demonstrate the urgency felt at political level.

Chart A, above, illustrates the point about systemic risks. The value of outstanding OTC derivatives is many times total global GDP, giving rise to concerns that the unravelling of some of these contracts could tip the fragile financial sector over the edge. Recognising the potential danger, the US in May unveiled proposed new regulation to force all “standardised” OTC derivatives to be cleared through central clearing houses, to reduce the risk of investors being exposed to a single counterparty. These types of derivatives would also have to be traded on regulated exchanges via electronic systems. Firms that use derivatives may find that the sands shift beneath their feet while regulators around the world grapple with this issue.

Meanwhile, the European Union has already taken steps to impose regulation on alternative investment funds and managers, and this may be replicated elsewhere. In the EU there is the political will to legislate as early as next year so asset managers need to be aware of the potential impact on strategy and compliance.

There is, however, less pressure on regulated mutual funds, where the regulatory construct has not led to widespread failures. However, some mutual fund vehicles – such as the UCITS model in Europe – are steadily broadening the range of permissible instruments and widening the allowable strategies. Their greater use of derivatives and other risky instruments could undermine the brand, and care

needs to be taken to maintain a hard-earned reputation.

Regulatory efforts in the banking sector may have a knock-on effect in the asset management sector since the increased capital that banks will have to hold will lead to a restructuring of many of their businesses. To raise capital, some will be forced to divest their asset management businesses. This process has already started in the US, Europe and Asia alike, where a number of deals have already been announced.

A potential major development could be new regulation for custodian banks in the wake of Madoff and Lehman Brothers. The French Appeals Court recently upheld the French regulator's

direction that two European banks were strictly liable for the safekeeping of assets they placed with sub-custodians – in this case, Lehman Brothers. Although the UK, Ireland, Luxembourg and others dispute strict liability, the European Commission is now seeking to clarify this position across Europe by, possibly, updating the UCITS directive. As a result, we are likely to see an increase in custody fees to reflect this new risk profile, and/or some players exiting the market.

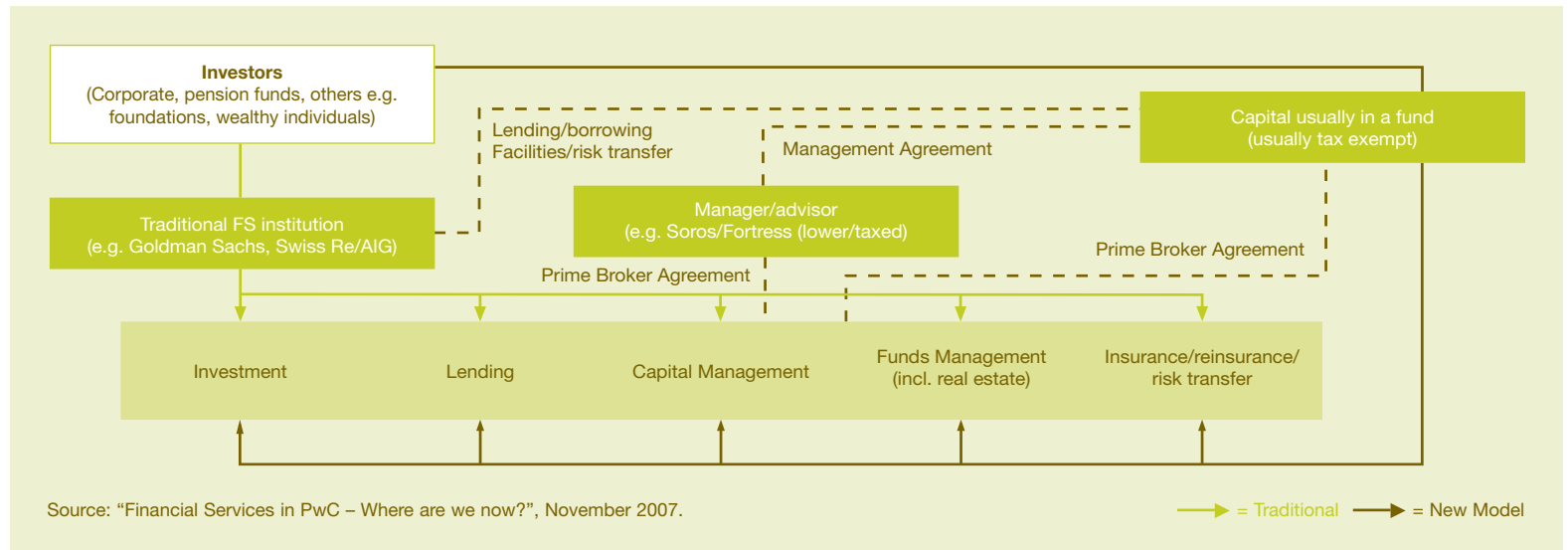


# six

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## Is the “new model” in financial services under pressure?

Over the last few years, capital has no longer flowed solely to the largest, full-service institutions, which both deploy and manage the assets.



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A model evolved whereby the deployment of assets and the management of them were often carried out by separate entities. Hedge funds and private equity firms were prominent within this model, many becoming household names. Key aspects of the growth of this “new model” included:

- A preparedness on the part of investors to invest in products and vehicles that were located in less regulated locations.
- The separation of the management of capital from the investment of capital.
- The preparedness of the banking system and international capital markets to provide leveraged funding and other services (including prime brokerage).

- Access to markets and sophisticated clients that was largely unregulated.

However, the credit crisis and consequent sharp erosion of asset values have brought this new model into question. There is a possibility that asset management now returns to the days where funds were simply awarded mandates to run and had no deeper involvement in the capital markets. It is also worth considering how badly-bruised investors react to these “new model” groups and their offerings. There could be a flight to quality – to groups within those FS institutions that have maintained balance sheet strength.

In addition, capital requirement rules may increase, which could raise the barriers to entry in some strategies. Certainly, regulatory restrictions on the activities of asset managers may impede their ability to manage certain assets.

But the risks to the model are not all weighted to the downside: alternative funds should still be more nimble, flexible and attractive to talent than mainstream financial services competitors. Although the business environment will be more challenging, they should still derive greater opportunities.

# seven

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## Deleveraging in the banking system will affect asset management

Banks have expanded their balance sheets rapidly in recent years without a simultaneous rise in core capital. They are now being compelled to redress this imbalance. As banks seek to rebuild their balance sheets they are likely to be ruthless in enforcing penalties on covenant breaches by companies they lend to.

This has a particular impact on asset managers. Although they are not highly leveraged at the company level, they have a high natural gearing to markets, so in a downturn their earnings tend to be hit disproportionately. This leaves them exposed to potential breaches of covenant and other cashflow and balance sheet difficulties.

The biggest impact of deleveraging is on those hedge funds and private equity which depend on debt to gain access to transactions and magnify successful investment strategies. Without access to affordable leverage with reasonable levels of collateral, their business models may struggle.

Since one of their unique selling points is access to plentiful debt and the extra levels of return this implies, their value to investors may decline. As a reflection, fee levels are already moderating and this trend may accelerate.

In the hedge fund sector, the weight of redemption requests has put pressure on some firms to raise the necessary cash to repay investors. Investors may in the future only be willing to commit funds to vehicles with solid financial backing and access to ready cash. This could lead to a speeding up of the domination of the alternative investment funds sector – including private equity and real estate funds – by large, stable institutions.



# eight

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## Compensation: What's good for banking....

Most of the political and media rhetoric so far has centred on remuneration in the banking sector; some asset managers that are part of banking groups will be directly affected. But all asset managers should be aware of the debate and consider the implications for their organisation and industry.

If management and performance fees continue to decline, there will be an imperative to implement a long-term review of compensation to sustain the business model.

Where the asset manager is owned by a banking parent that has accepted state financial assistance, the influence of government is likely to make itself felt even at the asset management level. Compensation may be regulated – this is currently on the EU agenda – or otherwise monitored. This may give managers who retain or gain independence from parent groups a competitive advantage when seeking to hire and hold onto talent. It may also create an incentive for the best analysts and traders to set up hedge funds in order to be able to have greater

influence over compensation. Although seed money is less available than in the past, hedge fund creation has not completely ground to a halt and demand in Asia, for instance, is still considerable.

The continuing ability of hedge funds with illiquid strategies to earn performance fees from unrealised profits will be the subject of significant challenge from investors and consultants. There could be market pressure to move to a private equity-style fee model that rewards only realised gains. To some extent, this type of fee structure has already been seen in some of the illiquid side pockets that hedge fund managers have set up over the last year or so. In addition, the clawback model that exists in some

private equity agreements could start to be extended to the hedge fund space.

In private equity, the size of the management fee on large commitments may be challenged as fewer deals are transacted and performance moderates. This will in turn put pressure on the compensation model and only the services of partners with distinguished profit-making capabilities will be required.

Firms need to ensure that bonus outcomes adequately capture the risk assumed in generating profits. They need to scrutinise the design of deferred compensation and decide when and how deferred compensation should be used in order to align executives with appropriate risk-taking. In terms of remuneration governance, conflicts of interest must be managed, and

alignment with the firm's risk-appetite must be demonstrated and better communicated to the marketplace.

Compensation structures that have served firms well for many years may have to be revisited as stewardship of asset management firms starts to change. The credit crisis has created new operating conditions to which a new breed of executive may be better suited. Succession issues will increasingly come to the fore, particularly within partnerships, and these will entail complicated discussions over appropriate levels of and the criteria for appropriate compensation.

The importance of asset allocation came to the fore in the last quarter of 2008. Compensation pools may in the future be skewed further towards asset allocation professionals, as opposed to stockpickers.

Compensation must be handled sensitively and flexibly. While the current environment represents a good opportunity to reform compensation, at the same time there is a risk that high achievers are alienated by a process that may seem no longer to reward them, particularly if pay is linked to firm-wide profitability.

Overall, the fact that the asset management industry is likely to be less constrained by government interference or direct regulation on compensation is likely to be a source of competitive advantage for the asset management industry. Most countries have lower rates of tax on capital gains, so the more flexible remuneration as regards share arrangements that the asset management industry can offer is also a competitive advantage.

# ■ nine

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## The re-awakening of Asia

Patterns of consumption and saving in both the West and emerging markets are shifting. The West is starting to consume less and save more, which implies slower future economic growth. Meanwhile Asia, less affected by the global crisis and less encumbered by legacy debts, should grow at a faster rate in the foreseeable future.

This would re-establish the equilibrium of the past. Just two centuries ago, China accounted for 35% of the world's population and 30% of world GDP, while India accounted for 20% of the population and 16% of GDP. These figures fell by nearly 80% by 1950 but are now soaring back upwards with China growing in recent years at about 10% annually and India by 7%.

With the rest of the world growing at 2–3% per annum, China will have a bigger economy than the US well before 2040 and India will be as big as Germany, Britain and France combined.

These countries are generating huge reserves and surpluses and are able to invest in their own economies at unprecedented levels. In China, for instance, gross savings as a share of the

economy have reached 50% so there is plenty left over to spend on overseas assets even after 40% is invested in the economy. This hints at the extraordinary opportunities that are available to investors – a one-off re-rating of Asian stocks in the short-term could be complemented by long-term growth at a higher trend rate than in the West.

Increased savings rates, together with the need to restore assets in retirement accounts due to the significant market losses, in Western economies will provide opportunities for asset managers to exploit this growth. Indeed, assets sourced in the West are likely to be deployed differently from the past – with a reduced emphasis on slower growing “mature” markets, and greater emphasis on the faster-growing economies of Asia.

Financial systems in Asian economies are likely to develop rapidly, with a number of local and regional financial centres rising to prominence. However, risks remain for investors in the region. There is still a degree of political and economic instability, while industry know-how and expertise is more limited than in many Western countries. And, while wealth is spreading rapidly throughout Asian populations, a substantial middle class with great consumer power has yet to emerge in many Asian countries.

Asset management firms will need to keep abreast of developments or risk moving out of step with investor demand and expectations.



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