PERSPECTIVES

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The Tipping Point – The Case for Inorganic Growth as a Permanent Fixture in Asset Managers' Strategic Toolkits

Asset management is a growth business. As elevated interest rates reshuffle demand dynamics and with pricing under pressure, achieving organic revenue growth is proving to be an increasingly difficult task.

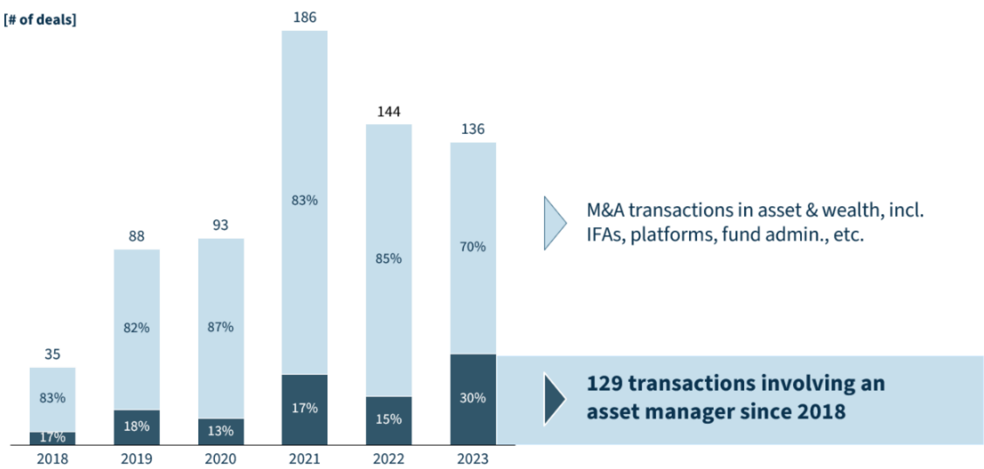
For asset managers to maintain a competitive positioning despite this, it will not be enough to merely manage their cost bases — industry leaders should consider a broad array of growth engines, many of which can and should be achieved inorganically.

New Heights for Asset Management M&A

M&A continuously commands the headlines, with every year seemingly proclaimed as "the year of consolidation". Data confirms that year on year deals have grown significantly since 2018, a trend that has remained steady even through the turbulence of the last two years.

But in 2023, this growth trend saw a new twist — M&A transactions reached a new peak in "pure" asset manager-related deals.

M&A deals in asset and wealth management
(2018-23, European targets)



Sources: Mergermarket, Indefi analysis.

Leaving aside private equity-sponsored and GP capital stakes deals, 80% of transactions involving an asset manager are strategic in nature. Of these, two broad categories dominate:

- *Domestic consolidation* (20% of deals), whereby firms strive for domination of a given market or channel by aggregating local competitors or client-affiliated asset managers. We forecast increased activity in this area, driven on the one hand by institutional investors and insurance companies disposing of their sub-scale affiliates and, on the other hand, by the fast-growing consolidation trend of hitherto hyper-fragmented wealth markets.
- *Diversification* (60% of deals), whereby asset managers leverage inorganic expansion to fuel their growth engine. In this category, the acquisition of private market-related capabilities has been a magnet (two thirds of the deals). We expect a steady development of private asset-related deals, especially in Europe (incl. UK) where difficult market conditions for independent GPs have led to increased openness to consolidation, providing a fertile hunting ground of >1,000 private assets boutiques for deal-seeking asset managers.

A Perfect Storm: Why The Time to Focus on M&A is Now

Against the backdrop of this slowly yet steadily increasing trend, we believe that inorganic growth, in all its forms — from strategic partnerships and joint ventures to outright acquisitions — ought to feature prominently on industry leaders' strategic agendas.

We see three primary drivers behind the rise of inorganic growth strategies:

1) Organic revenue growth appears increasingly challenging in light of recent market dynamics[1];
2) Private market capabilities will remain central to the strategic equation. In our experience, it remains difficult for a traditional asset manager to grow private markets organically;
3) Finally, as technology and digital capabilities increasingly determine asset managers' competitive positioning among peers, we expect corporate venturing, partnerships and/or outright acquisitions to play a growing role in the necessary transformation of legacy organizations.

Charting a Growth Strategy Going Forward

When developing a growth strategy for the coming years, asset manager leaders must consider two distinct paths:

1. Focus on the "open" asset management market, i.e. targeting competitive assets by clearly defining and prioritizing select opportunities. Managers should leverage an inorganic expansion of their capability range to accelerate growth;
2. Pursue a more sophisticated playbook focused on future-proofing revenue streams by expanding capabilities beyond the realm of traditional asset management. Assets here are typically accessed via:
   a) Deploying asset value services (e.g. OCIO) and tech-enabled platforms to secure privileged relationships with clients, thus accessing captive assets (the "Trojan horse" strategy)
   b) Proactively implementing an inorganic strategy focusing on vertical integration, with a priority on securing direct access to the individual client and/or building access to long term capital (incl. insurance balance sheets).

While every manager's growth playbook needs to be driven by their unique starting point and distinct positioning, it's essential to utilize M&A and other inorganic options as a core tenet of the overall growth strategy, not as a purely financial play.

Indefi is a strategy consulting firm that provides asset managers – from the top 10 largest global firms to boutiques and private market specialists – with an actionable roadmap to achieve their growth objectives. Operating across Europe and the U.S., Indefi maintains both a global view and deep local market expertise. The firm's guidance, grounded in conviction and insight, spans growth strategy, market entry, product development and enhancement, sustainability, and M&A support. For more information, please visit www.indefi.com.

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[1] *Please refer to Indefi, "Return of the living dead, part II", Oct. 31, 2023.*