
PERSPECTIVES

ASSET MANAGEMENT AFTER COVID-19: SHAKEOUT, ADJUSTMENT OR BACK TO WHERE WE LEFT OFF?

In the global asset management industry, powerful forces of change have been at play throughout the last decade: regulation, technology and low yields - to name but a few. The climate crisis came on top. Covid-19 will further speed up change. It also reveals who is adjusting to the new reality and who still has ground to cover.

The Covid-19 pandemic has put asset managers to an unprecedented test. Once the dust settles, the question over time will remain their ability to cope with - and in some cases benefit from - the disruption this health crisis has brought. Based on our ongoing dialogue with asset managers and the many in-depth discussions we have held with investors over the past few weeks, several key themes emerge that will shape the industry in the near future.

1. Sustainability takes centre stage

While ESG has been a buzzword for nearly a decade now, the crisis has brought it to centre stage. The long-neglected “S”, in particular, will be put under the spotlight.

- **Environment**

The environment aspect will take a wider biodiversity angle, as the health crisis lays bare the increasing risks that our way of life has brought to bear.

- **Social**

The aftermath of the pandemic will bring about an increased focus on issues such as employee treatment, paid leave, healthcare arrangements and supply chain management. This will shift the focus away from simply global warming impactors - fossil fuels, utilities, airlines and carmakers - to the services, financial and healthcare sectors.

- **Governance**

New themes will emerge, in relation to the likely deglobalisation trend (e.g. aggressive tax avoidance by global firms).

2. Private assets

The current Covid-19 pandemic is unlikely to derail private assets from their unabated growth course over the medium term. It is primarily driven by yield generation imperatives and regulatory/ accounting-friendly diversification benefits.

The future scenario is nevertheless one of enhanced discrimination among these asset classes. This will

hinge on an increased focus on relative value (as illustrated by the comeback of liquid credit to the detriment of private debt in investors’ favour) and a long-term resiliency analysis.

Private assets are likely to remain the most powerful profitability growth engine for the industry. Our series of Covid-related thought pieces will further shed light on this over the coming weeks.

3. Traditional assets

Several opportunities are coming to the fore for asset managers:

- Short-term resurgence of left-behind asset classes (investment grade fixed income) in allocations driven by relative value opportunities;
- Playing the “national card” either in the form of riding the government intervention wave (managing asset purchase programmes) or devising new products that will thrive in a deglobalization trend and/or contribute to national economic rebound;
- Continuous rise of thematic equity strategies (sustainability, resiliency, turnaround...);
- Renewed investor interest in asymmetric strategies helping circumvent excessive equity market volatility (convertible bonds, risk premia).

Against this background of opportunities, a divide is emerging between operationally agile, long-term strategic planners and the rest, which remain paralyzed by the pandemic like deer in the headlights, and have put on hold business development initiatives.

Unprecedented times call for unprecedented action.

Asset managers have the opportunity to take advantage of current uncertainties and prepare for the next growth cycle by detecting the “weak signals” of future competitiveness. Business mix, product innovation, enhanced client engagement and non-organic strategies will pave the road to success for those who will take bold action.

Current times could also reshuffle the pecking order, and present an opportunity for long-term established players, some of which are late to the third-party development game, to make a big leap forward.

INDEFI is an independent strategic advisor for the investment management business in Europe. Our positioning at the cross-roads of asset managers and investors across Europe gives us a unique vantage point on the impact of the Covid-19 pandemic on the asset management industry.