Brexit and beyond

Assessing the impact on Europe's asset and wealth managers

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Introduction

Amid the political uncertainty that has dogged the Brexit process throughout 2019, asset and wealth managers (AWMs) have continued to prepare for the UK's departure from the European Union. Having planned for Brexit on 29 March, many AWMs took advantage of the delay until 31 October to fine-tune their preparations, particularly as the chances of a 'no-deal' Brexit began to rise. With an extension until 31 January 2020, AWMs will need to continue to renew their preparation against the latest developments.

However, AWMs are not focused solely on Day One after Brexit. They are conscious that in the absence of a final agreement on the future trading relationship between the UK and the EU — let alone a blueprint for what this will mean for their own industry — Brexit represents a starting point. There will be further changes to the operating model ahead, and in the longer term, Brexit is certain to have broader implications and unintended consequences for the AWM industry across Europe.

Given this context, PwC wanted to gauge the sentiment of leading AWMs. In September 2019, we conducted qualitative interviews with senior executives at more than 20 global AWMs across all asset classes — representing roughly one-fourth of the assets under management by the industry's 400 largest firms — as well as at several industry bodies. We spoke to a broad range of managers based both in the UK and in EU27 jurisdictions, including Ireland, France and Luxembourg, representing both traditional and alternative assets.

This report lays out the chief findings from those interviews, covering both the preparations for Brexit made by AWMs so far and their views of what the future now holds for their businesses and the industry as a whole. These interviews took place before the Brexit extension was announced. We look forward to discussing this with you in more detail.

"Many AWMs are using Brexit as an opportunity to place unprecedented focus and management time optimising and future-proofing their cross-border business models. Whilst Brexit puts the UK and EU27 in the spotlight at present, AWMs should not lose sight of the evolving global perspective; their approach must enable them to access key growth opportunities for fund distribution in Latin America and Asia."

Olwyn Alexander, Partner, PwC Ireland, and Global Asset and Wealth Management Leader

Key findings

This paper is divided into three sections, detailing the position of AWMs on Day One after Brexit, how they anticipate their operating models will change in the months and years that follow, and how they see the long-term outlook for the industry as a whole. These are our key findings:

Most AWMs we interviewed report that they have prepared well for Brexit, including planning for the UK departing the EU without a deal.

- The baseline assumption has shifted over the past year, so that most AWMs have planned for a no-deal Brexit as their central case. PwC's latest research suggests declining business confidence in the sector.
- Even in a no-deal Brexit, AWMs expect to be able to rely on certain key arrangements made by Europe's supervisory authorities, including portfolio management delegation and temporary permissions regimes (TPRs).
- UK-based managers largely intend to operate in the EU after Brexit through third-party management companies (ManCos) or their own ManCos, many with added substance, permissions and scope, and have put such arrangements in place.
- EU-based managers intend to use the TPRs to continue operating in the UK, and we understand that more than 500 TPR registrations have been received by the Financial Conduct Authority (FCA). Although this will enable them to continue marketing EU funds to UK investors, questions remain over the longer term.
- AWMs have questions about the future marketing of UK funds to EU investors, though in the short term TPRs offer some leeway.
- Broadly speaking, mainstream AWMs have taken more definitive steps towards Brexit restructuring than their peers in the alternative investments space.

AWMs regard Day One after Brexit as a starting point, anticipating further changes to their operating models as the UK and the EU agree upon a future trading relationship, and as their commercial strategies evolve.

- Although some AWMs will choose to operate only in the UK or only in the EU, most pan-European managers intend to remain pan-European. However, they are unsure whether their UK-based sales teams will be able to continue marketing to EU clients in the medium to longer term, particularly if regulatory changes threaten equivalence. For UK-only or EU27-only AWMs, meanwhile, there will be additional barriers to cross-border growth.
- Some AWMs expect to build on the ManCo arrangements they have already put in place, adding more staff and seeking additional permissions to support their growth ambitions across Europe.
- AWMs expect to be affected by additional regulatory requirements, particularly if Brexit begins to prompt regulatory divergence.

- Making changes in preparation for Brexit has prompted some AWMs to begin thinking more broadly about the location of their workforce; back-office and middle-office roles are most likely to be moved to new jurisdictions.

Most AWMs are concerned about the risk of a gradual erosion of London's status as the European centre of the AWM sector, as an increasing number of roles (outside portfolio management) move to EU jurisdictions. However, many expect that the UK could take action to counter this risk.

- AWMs that have established new entities or added to existing entities in order to meet Brexit needs now have more choice about where to locate their European staff and business functions.
- Regulatory demands, likely to increase over time, may force many AWMs to relocate more roles from the UK to their EU entities.
- EU governments keen to attract AWMs may attempt to accelerate this move or try to force the pace of change.
- Foreign national employees may themselves push to be relocated, if working in the UK becomes less attractive for financial or cultural reasons.
- Relatively few AWMs expect portfolio managers to move out of the UK in the foreseeable future, though some do not rule this out.
- AWMs expect the UK government to act in the best interests of the country's AWM industry, although their options may be tempered by the need to secure a working relationship with the EU based on equivalence. Regulatory divergence would be difficult, but there may be scope for new mutually recognised fund arrangements or new fund structures in the UK to appeal to a more global client base. A two-tier regulatory regime is one possibility; the tier structures could mirror EU arrangements in one case and those in an offshore centre, such as the Cayman Islands, in the other.

1

Brexit, Day One

In the immediate aftermath of the UK's vote to leave the EU, the majority of AWMs were optimistic. Their Brexit planning centred on an assumption that a ratified withdrawal agreement would give them a transitional period lasting until at least 31 December 2020; during this time, they expected to be able to continue operating largely on the same basis as pre-Brexit, including making use of the passporting arrangements between the UK and the EEU/ European Economic Area (EEA). A no-deal Brexit was considered a more remote possibility.

Over the past 12 months, this scenario planning has almost entirely reversed. For almost all the AWMs interviewed during this research, a no-deal Brexit has become the baseline outcome. They have responded accordingly, 'planning for the worst while hoping for the best,' but there has undoubtedly been a hit on sentiment in the sector. The latest CBI/PwC Financial Services Survey reveals the number of AWMs in the UK that feel negative about future growth is 15 percentage points higher than the number of those that feel optimistic.

Still, AWMs have the comfort of knowing that Europe's supervisory authorities have signed a cooperation agreement that will apply in the event of no deal. Most significantly, the Memorandum of Understanding (MoU) between the FCA and the European Securities and Markets Authority (ESMA) allows for AWMs to continue delegating portfolio management responsibilities across borders between the EU and the UK. The FCA's TPR, enabling EU-based AWMs to apply for advance approval to continue marketing EU funds in the UK, has also proved invaluable. And the allocation of additional resources by Ireland's central bank (CBI) and the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg has undoubtedly helped AWMs with their preparations.

Nevertheless, no-deal Brexit planning has required AWMs to make significant decisions, depending on the nature of their business, their operating model and their strategic intent. And even a Brexit incorporating a deal at the end of January 2020 will give the UK and the EU only a short time to agree on new arrangements, because the latest withdrawal agreement still incorporates a 31 December 2020 end date for the transition period, and the UK Government has stated that it will not seek an extension. This is a tight deadline that could see no-deal fears re-emerge. At a corporate level, significant decisions for two distinct groups — UK firms with EU funds and investors, and EU firms with UK funds and investors — differ.

UK firms with EU funds and investors

In order to continue providing services to EU clients, most of the UK-based AWMs in our interviews have now appointed third-party ManCos or established their own ManCo in an EU27 jurisdiction (or added substance to an existing entity). Ireland, specifically Dublin, and Luxembourg have been the most common choices. Portfolio management is typically delegated back to the UK and elsewhere.

Broadly speaking, larger AWMs have chosen to establish their own ManCo or have built on their existing entities in Ireland, Luxembourg or elsewhere. Ireland alone has seen 103 new alternative investment fund managers (AIFMs), undertakings for collective investment in transferrable securities (UCITS), and markets in financial directive ManCo authorisations since 1 January 2018, whilst Luxembourg has 22 new AIFMs, five new UCITS ManCos and eight new SuperManCos since the same date.

Securing the necessary permissions from local supervisory authorities has generally been straightforward, though AWMs have often had to augment their presence on the ground in their chosen jurisdiction to establish substance. So far, this has typically required the movement of some individuals, resulting in additional cost, as well as local recruitment.

In some cases, UK AWMs already had ManCos in the EU27, in which case they have felt able to rely on these entities, at least to some extent, and have often chosen to transfer branch businesses previously headquartered in the UK to their European entities. Some have had to apply for top-up permissions, having previously used their ManCos only for limited activities; for example, some EU ManCos have needed additional markets in financial instruments directive (MiFID) permissions to service segregated mandates from EU27 clients.

Amongst smaller AWMs, third-party ManCos have represented an obvious solution to the need to move quickly ahead of Brexit within the constraints of limited resources, though several firms report that choosing the ideal solution has taken longer than expected.

In some cases, the third-party route is regarded as a stopgap solution until there is greater clarity about the post-Brexit operating environment. For other firms, a third-party ManCo will be a more permanent arrangement; such providers may even begin to attract larger AWMs.

One issue to watch closely will be whether regulators begin to take a closer interest in the third-party ManCo market, particularly in situations where assets under management have increased markedly; assets under management of the top ten Luxembourg third-party ManCos grew 20%, from €239bn to €288bn, in 2018.

EU firms with UK funds and investors

Most EU-based managers expecting to continue offering services to clients in the UK have existing operations in London or another UK location that will enable them to do so; accordingly,

Brexit has caused AWMs in many cases to invest in substance or authorisations in additional locations, in order to maintain access to all the important investor bases across Europe. Many are embracing this as an opportunity to tidy up legacy structures and create strategic hubs in the EU, while still leveraging group resources to create an operating model designed to balance the need for efficiency, effectiveness, client delight and compliance."

Steven Libby, Partner, PwC Luxembourg, and EMEA Asset and Wealth Management Leader

relatively few have felt the need so far to make significant changes in order to continue accessing the UK market. As of July 2016, there were 1,078 ‘inbound’ passports to the UK under AIFM Directive, UCITS or MiFID.

For those AWMs that need to do more, the FCA’s TPR has provided a short-term solution, and we understand that more than 500 applications have been made to date. But the Brexit review process has prompted some managers to re-evaluate the desirability of operating with parallel UK and EU fund ranges.

Consequently, in addition to the potential for corporate restructuring, AWMs have also had to consider their product ranges and sales arrangements. Again, firms fall into two groups:

- **Firms marketing UK funds to EU investors.** Although many AWMs do currently make their UK fund ranges available to EU investors, the majority see limited potential for this type of business post-Brexit. In the short term, the growing number of TPRs available in EU member states has been helpful to firms.
- **Firms marketing EU funds to UK investors.** Many AWMs interviewed currently market their EU fund range in the UK and wish to continue to be able to do so. In the short term, the FCA’s TPR will resolve this issue and, where necessary, AWMs have been signing up for this regime.

AWMs are not yet certain of how they will proceed in the longer term, however, which is a concern given that the TPR is due to expire three years after Brexit (though additional 12-month increments are possible). They are also aware that new fund launches may not be TPR eligible. There is some expectation that a solution for retail products will eventually be found under Section 272 of the Financial Services and Markets Act. The National Private Placement Regime may be an option for marketing to professional investors. Still, both these routes carry pitfalls.

One final point on Day One arrangements: it is worth noting that mainstream AWMs have generally made more decisive adjustments to their businesses than have their peers in the alternative assets sector. This is not true in all cases, and firms in the alternatives sector have typically engaged in significant review and planning processes. Nevertheless, the imperative to ensure marketing solutions are in place on Day One after Brexit is less compelling for managers in the alternatives sector not currently marketing products to EU investors; in some cases, managers expect to be able to continue to use the National Private Placement Regime in certain jurisdictions.

Overall, the AWMs we interviewed say they are mostly well prepared for Brexit, even if the UK leaves with no deal. Any dramatic last-minute changes to existing agreements, in particular related to portfolio management delegation, would cause significant problems, but they are considered unlikely.

However, many AWMs have planned for other worst-case scenarios. For example, some have made provisions for a period of severe market volatility and illiquidity that could potentially be triggered by a no-deal Brexit. In the extreme, some managers have even begun developing contingency plans for eventualities such as civil disobedience limiting the ability of staff in the UK to get into the workplace. In the longer term, there are also concerns that other EU members could seek to leave the bloc in the future, forcing AWMs to move or reorganise once again.

Five key takeaways from our research

1. More than three years after the Brexit referendum, there is still little clarity about the future relationship between the UK and the EU; AWMs still face a leap into the unknown. And although the EU's equivalence regime offers a potentially powerful insurance policy against future uncertainty, AWMs may suffer collateral damage if trade negotiations become politicised.

2. Most AWMs we interviewed say they are ready for Brexit, helped by the interventions of Europe's supervisory authorities, and should be able to continue operating largely seamlessly, even in the case of no deal. However, market and economic volatility is a concern. And a Brexit that introduces a transitional period enduring until the end of 2020 leaves only a tight turnaround for authorities to agree to new permanent rules and for AWMs to prepare for them.

3. The future for the UK's AWM sector is now unclear. Policymakers and the AWM sector will need to focus on cementing the UK's status as a centre of excellence for portfolio management while deciding the extent of tax and/or regulatory alignment that is a viable option for driving funds growth.

4. EU27 centres such as Ireland and Luxembourg now have an opportunity to consolidate and grow their substantial funds industries, but fragmentation and domestic competition pose a potential risk.

5. EU27 AWMs are still unclear about the best way to access the lucrative UK market, although the current outlook appears to favour a mirror funds approach. The case for mirror funds will be strengthened if such vehicles are able to access new mutual recognition of funds (MRF) regimes entered into by the UK, providing a means to enter new markets not open to UCITS.

2

The future operating model

Although most AWMs are confident that their corporate structures and product ranges are fit for purpose on Day One after Brexit, they also foresee further change in the months and years ahead.

Some of this change will reflect the need to evolve as the UK and the EU agree on a more certain and permanent post-Brexit regime for the AWM industry. But the process of reviewing their operations in readiness for Brexit has also prompted many AWMs to ask broader questions about their strategic direction; in some cases, firms now expect to make changes that aren't strictly necessary in a Brexit context but that make sense for their businesses.

Selling cross-border

The fundamental question for AWMs in this context is the extent to which they see a future for themselves as pan-European firms. Some AWMs interviewed said one medium-term consequence of Brexit would be to force them to choose a marketplace on which to focus — for example, to pull back from EU markets if their sales are limited and there is no immediate prospect of growth; it makes sense to try to straddle two horses only if both are well-placed to be winners.

However, many AWMs continue to regard both the UK and the EU as key markets in the medium to longer term. Their challenge is to build an enduring operational model that is compliant in the post-Brexit environment and offers the best prospects of commercial success in both jurisdictions.

One significant challenge taxing a number of AWMs that we interviewed with largely UK-based sales teams is how they will deal with cross-border sales in the future. There is, as yet, no agreement about what will follow in relation to the MiFID requirements.

For larger firms used to operating international sales forces, putting more people on the ground in the EU is certainly one option, but smaller AWMs are contemplating workaround solutions. Dual-hatting of roles and secondment arrangements may resolve some issues, but the practicalities of such setups can be difficult to manage. Some AWMs also anticipate supervisory authorities across the EU becoming significantly more demanding about the number of locals employed by AWMs, and their relative seniority. Substance may become increasingly burdensome, with Steven Maijoor, chair of the European Securities and Markets Authority, stating recently that “due to Brexit and the resulting relocations of UK market participants to the EU27, we have embarked on a completely new area of supervisory convergence work.” However, increased substance in new jurisdictions may provide further opportunities for third-party ManCos to begin offering additional services such as distribution solutions.

Future-proofing for growth

AWMs are also eager to future-proof their businesses. UK-based managers are concerned, for example, that although third-party ManCos will ensure Brexit readiness on Day One, they may not enable firms to offer a full-service proposition in the longer term, undermining their growth ambitions. In some cases, the answer may lie in establishing a new MiFID entity in an EU market. That could mean adding staff to existing ManCo entities in locations such as Ireland or Luxembourg.

The changing tax environment also has a role to play here, and, with future-proofing in mind, aligning substance with fund domicile choice enhances robustness from the perspective of tax-treaty access. That said, several AWMs point out that it may make sense to establish a local presence in the market they expect to be biggest — Germany or France, say. Either way, this will require further discussions with local regulators about what is required on the ground.

Some AWMs are also focused on the other side of the P&L. As well as positioning themselves for growth, they're eyeing the cost efficiencies they may be able to generate as they establish new entities and centres of operations in new locations. With an expanded operation in Ireland, for example, it may now make sense to consolidate more services and back-office support in a single location. If physical proximity of functions is desirable, relocating one may spur a move for another.

We received a clear message that the UK will remain a very important part of Europe's finance ecosystem beyond Brexit. To this end, and to prevent further fracture, uncertainty and costs for business and investors, there is a strong desire among our clients for close alignment based on regulatory equivalence between the UK and the EU27."

Andrew O'Callaghan, Partner, PwC Ireland, and Global Asset and Wealth Management Advisory Leader

Existing EU funds marketed in the UK can continue for up to three years by utilising the UK's TPR. They simply need to register by 30 January 2020, and an additional 12-month increment is also possible. For new funds and sub-funds, the requirements are more complex and depend on the type of fund, so accessing the UK market will be tougher."

Jasleen Grewal, PwC UK, and AWM Legal and Regulatory

One common concern among AWMs is that the Brexit fallout may prompt EU supervisory authorities to seek to further strengthen the unified regulatory regime. As jurisdictions vie to attract AWMs now looking to increase their EU presence, authorities such as ESMA may intervene to prevent a race to the bottom. The result may be increased pressure on national regulators to be more demanding about substance and reporting, or a shift of power towards centralised supervision across the EU. There is also concern about losing the UK voice in the European regulatory debate, given the nuance and depth of its understanding of the industry.

Labour market pressures

Similarly, many AWMs are beginning to contemplate practical questions about their future workforce. They may want to expand their operations in new markets, particularly where they see scope for reduced cost, but is the local talent pool sufficiently deep to support their ambitions?

Several AWMs interviewed noted the relatively small talent pool in Luxembourg, for example. Ireland is regarded more positively; although it may have a more limited number of experienced AWM professionals, the Common Travel Area between the UK and Ireland means the island of Ireland will be one location where people can be much more confident of travelling across the border between the EU and the UK without visa restrictions.

Settlement and trading

Finally, some AWMs expressed concerns about access to trading exchanges, which may yet force them to make operational changes. One manager, for example, is moving traders to Ireland as a short-term solution to the issue of jurisdictions such as France, Germany and the Netherlands requiring transmission of orders to take place in the EU, rather than in third-party countries (the UK will become a third-party country post-Brexit). Exchange-traded fund (ETF) settlement is also in focus, with many Irish-domiciled ETFs currently settled via CREST, which will become a third-party country venue after the temporary equivalence period provided for by the European Commission, due to end in March 2021.

Other firms cite the issue of dual-listed securities, as the absence of an equivalence ruling has left AWMs concerned about how they will meet share trading obligations in the UK and the EU.

3

AWM after Brexit: A new centre of gravity?

Some of the impacts of Brexit will reverberate for many years after the UK leaves the EU. Most strikingly, some of the AWMs interviewed believe Brexit has the potential to lead to a slow but steady erosion of London's status as the European powerhouse of their industry. Multinational AWMs, including non-European firms such as US businesses, may take some hardheaded decisions to reduce their UK presence. One possibility is that the UK may remain a leading portfolio management centre while its broader status as a fund management centre is somewhat diminished.

Several reasons make this outcome a possibility, particularly in an environment where AWMs are already thinking hard about pressures on margins as costs rise. A number of AWMs pointed out that, having set up EU entities that did not previously exist (or augmenting what were previously small outposts), they now have much more choice about where to locate their European staff and functions; before this, London was their only option. Other centres may be more attractive commercially, and cost-of-living differences may play a part.

That choice, moreover, may be influenced by the actions of the supervisory authorities in these jurisdictions. Several AWMs said that, although regulators had so far been relatively practical on issues such as substance, they expected regulators to become more demanding in the years ahead; AWMs may be forced to base more of their staff in the jurisdictions where they have established significant entities.

There is also an expectation among some AWMs that staff may themselves be less inclined to work in the UK. Foreign nationals currently based in the UK may gravitate towards other locations: they may simply feel less welcome in a post-Brexit Britain, or an enduring devaluation of sterling may provide a financial incentive to push for a move elsewhere. It may also become harder to recruit foreign nationals to work in London. Home Office data estimates that in 2018, there were 3.35m people with EU, EEA or Swiss nationality living in the UK. Only 1.86m people, or 55.5% of this population, had applied to the EU Settlement Scheme (EUSS) by 30 September 2019.

None of these factors are definitive, and most AWMs believe the shift, if there is one, will be gradual. Nevertheless, there is no doubt that several EU governments see an opportunity to attract AWMs to their markets. There are a number of ways to exploit such an opportunity; one interviewee noted "an early aggressive push" to attract business from the UK.

Brexit provides the UK asset management industry with an opportunity for growth, both in terms of revamping the UK's international competitive fund range and in attracting global capital to be managed by UK-based AWMs with access to London's wider financial markets and services."

Robert Mellor, Partner, PwC UK

Generous personal tax treatment is one option. For example, Ireland has the Special Assignee Relief Programme (SARP) aimed at attracting key talent who relocate to Ireland with their employer, and the Italian government has offered attractive tax perks to highly paid individuals relocating to Italy, including both expatriate Italians and foreign nationals. Market reform may make sense too; France, for instance, is developing proposals to improve the competitiveness of its distribution model, building on the pre-Brexit French Routes and Opportunities Garden (FROG) initiative.

Regulatory intervention is yet another possibility. Some AWMs anticipate governments may want to fight proxy battles for market share through their supervisory authorities, even though their ability to do so may be limited. Back- and middle-office staff are most likely to account for any shift in industry activity out of the UK. Very few AWMs expect London to suffer any significant loss of portfolio managers in the foreseeable future (though they do not rule it out).

One question for AWMs will be whether potentially attractive jurisdictions can support a significant influx of new business. The talent pool in Luxembourg, in particular, is already considered to be nearly at full capacity. Local factors such as the affordability of housing, access to education and transport links may also represent significant hurdles for AWMs seeking to relocate their staff.

The UK will naturally seek to play on such concerns, but it will also need to consider proactive steps to protect its market share. Some AWMs speculate that UK policymakers will seek MRF agreements with non-EU countries — notably the US. Such an agenda could even include the launch of a new international fund structure as part of a two-tier regulatory framework aimed at competing with the untaxed and unregulated products currently available through offshore financial centres.

The counter-argument is that policymakers may be wary of agreements that undermine attempts to preserve equivalence between the UK and the EU. The EU, in any case, may offer a more attractive partner, given the relative size of the market, for non-EU countries seeking MRF arrangements. As for new fund structures, there is some scepticism that any UK government could guarantee sufficient long-term stability in the tax and regulatory environment to win business from centres such as the Cayman Islands; such a move could also cause friction with the Channel Islands.

These challenges will not be easy to resolve, particularly given the ongoing political uncertainty in the UK. Indeed, many AWMs pointed to the prospect of a Labour government, led by Jeremy Corbyn, as a large step into the unknown. Significant rises in corporation tax and income tax, for example, might prompt both AWMs and their employees, including portfolio managers, to reconsider their location.

Ultimately, it is too early to speculate with any certainty about the extent to which Brexit will shift the balance of power in European asset and wealth management — there are simply too many unknowns. Nevertheless, the UK will feel the pressure to maintain its competitiveness, both as a domicile for AWMs at a corporate level and as a provider of a product range that is attractive to AWMs and their client bases.

Conclusion

Our interviews suggest that Brexit represents a pivotal moment for Europe's AWMs. Although many of the AWMs we interviewed said they are prepared for Day One following the UK's departure from the EU, deal or no deal, this is only the beginning of the story. AWMs are now beginning to think hard about what comes next — above all, about how to best position their business for future growth and profitability.

Bear in mind, too, that Brexit is just one disruptive influence now prompting AWMs across Europe to think strategically about the future. Themes such as the digital transformation of the entire financial-services sector, global demographic shifts and the emergence of a new macroeconomic world order may ultimately be far more significant. PwC's own work, the Currency of Collision, charts many of these ideas.

Still, for Europe's leading fund centres, the post-Brexit world will be one of significant opportunities as well as risks. We believe the UK will continue to have a great deal to offer the AWM industry — not least its remarkable depth of expertise and experience — and that it can prosper in a post-Brexit world. But other centres will hope to capitalise on the post-Brexit readjustment.

The future for the UK

- The UK is already a centre of excellence for portfolio management, and with no immediate threat posed by Brexit, it can continue to build on this position. Most AWMs foresee the UK remaining as the location of choice for the majority of its portfolio managers.
- Initiatives from groups such as the Investment Association to develop new fund structures and product types can provide further competitive differentiation.
- The UK also now has an opportunity to independently pursue new markets — through, for example, mutual fund recognition agreements with markets in Asia, North America and Latin America.
- The UK will need to consider the potential for a loss of talent, particularly if sterling stays depressed. Continuing political uncertainty remains a serious risk.

The future for other centres

- Markets such as Ireland and Luxembourg now have a clear opportunity to establish themselves as preeminent fund centres, though portfolio management is less likely to move from the UK. Pan-European and global AWMs are already concentrating substance in these geographies and may be encouraged to add to this through distribution substance.
- The third-party ManCos based in these markets are now set to mature and diversify. Indeed, we have already seen significant M&A activity in this space in Luxembourg, with multiple deals involving acquisitions by Apex, Alter Domus, FundRock and Sanne. This may lead to them offering broader ranges of outsourcing services in areas such as distribution.
- Institutional intermediary platforms look well placed to grow and to consolidate; Ireland, Luxembourg and others will want to capture this market. Consolidation is already taking place in this space too, with recent deals involving Clearstream and Swisscanto, and Allfunds and Credit Suisse.
- With their growth continuing to outpace that of UCITS (in Luxembourg, 451 AIFs and 90 UCITS launched in 2018) and reforms of the AIFM Directive underway, AIFs are an important growth opportunity for EU centres.
- EU27 centres must be prepared to outpace the UK in the race to partner with new markets globally and to become the natural domicile for funds in emerging growth areas such as environmental, social and global (ESG) investment.
- To fully exploit these opportunities, these centres will need to confront concerns about skills shortages. The likelihood of fragmentation across the EU, as individual centres compete with one another, is potentially damaging, and regulatory divergence with the UK will raise new questions for AWMs in European centres still eager to access the UK market.

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Where to go next

https://www.pwc.com/awm

Contacts

Olwyn Alexander
Global Asset and Wealth Management Leader
Partner, PwC Ireland
+353-0-1-792-8719
olwyn.m.alexander@pwc.com

Andrew O'Callaghan
Global Asset and Wealth Management Advisory Leader
Partner, PwC Ireland
+353-1-792-6247
andy.ocallaghan@pwc.com

Steven Libby
EMEA Asset and Wealth Management Leader
Partner, PwC Luxembourg
+352-49-48-48-2116
steven.libby@lu.pwc.com

Robert Mellor
Asset and Wealth Management
Partner, PwC UK
+44-0-7734-607485
robert.mellor@pwc.com

Andrew Gray
Financial Services
Partner, PwC UK
+44-0-7753-928494
agray@pwc.com

James W. Stewart
Asset and Wealth Management
Director, PwC UK
+44-0-7469-033107
james.w.stewart@pwc.com

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