



Execute or be Executed

Rewarding Decisive Firms with Scalable Growth

The Knadel Solutions
2025 Perspectives

Overview

2024 was an interesting year for the UK's investment industry:

- Markets delivered mixed, but broadly positive outcomes against a backdrop of cautious investor behaviour and geopolitical instability, yet the UK saw significant net outflows;
- Technology (and more specifically AI) was on the tip of every tongue, but sentiment was running ahead of reality;
- Crowdstrike brought to life what Operational Resilience really needs to address;
- Private Markets continued to attract significant inflows, and as a result, increased regulatory attention;
- Asset Owners observed the Australian 'superannuation' model with interest, as scale reared its head, and the Government launched a review of DC workplace pensions and the LGPS; and
- More and more of the UK's Wealth Management industry fell under Private Equity ownership.

Against this backdrop Asset Managers, Asset Owners and Wealth Managers are facing up to the challenge of a ceiling as to how far cost management can take you in achieving your strategic ambitions. To bastardise a Churchill quote, *"for a firm to cost cut its way to growth is like a man standing in a bucket and trying to lift himself up by the handle."*

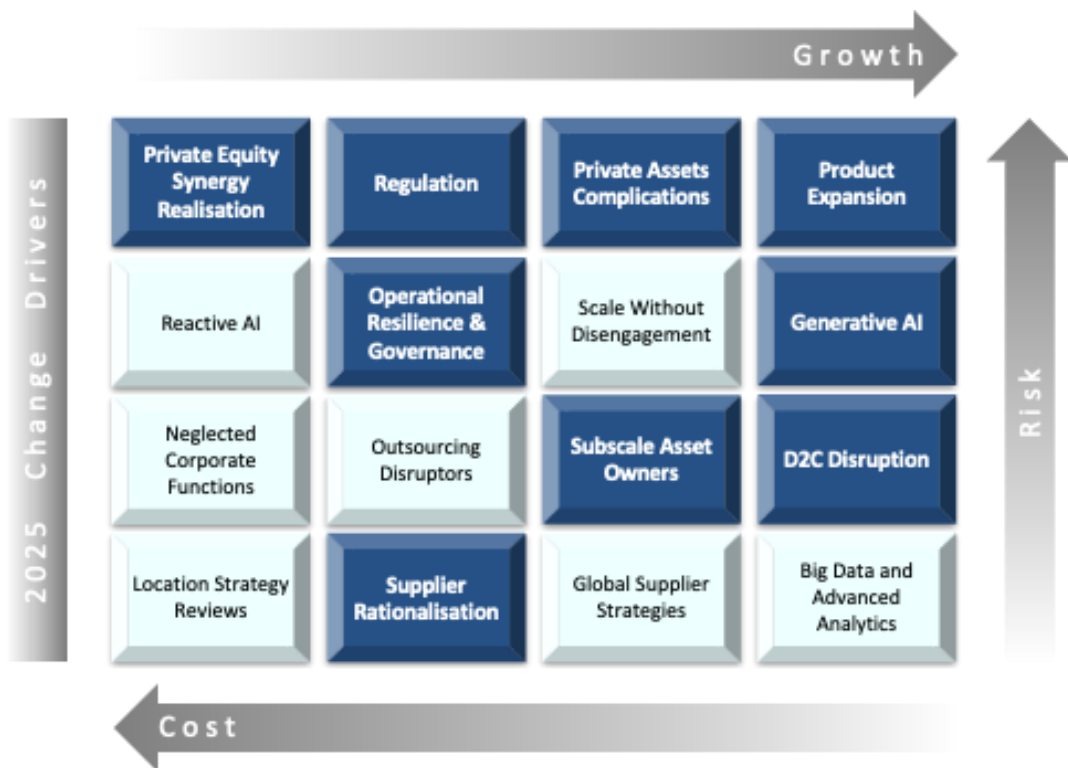
To deliver growth requires expansion – new clients, new products and/or new geographies. And to deliver profitable growth requires a scalable and efficient underlying operating model.

As we move into 2025 we expect to see the winning firms be those that are decisive – prioritising their opportunities effectively and taking proactive steps to achieve their strategic ambitions:

- **Enhancing Growth:** Aligning new product offerings to the needs of target clients; leveraging technology to deliver them in the way their clients wish to consume them.
- **Driving Efficiency:** Realising the operating model and technology savings opportunities from consolidation and supplier rationalisation, creating truly scalable platforms.
- **Mitigating Risk:** Embedding robust operations governance and oversight, enabled by greater data and insights, to manage entire supply chains and stay ahead of the regulation.

Overview

Whilst many firms have taken some initial steps to enabling scalable growth, we see numerous triggers that will need to be acted on to deliver meaningful change in the year ahead:



In this paper **KnadelSolutions** have selected what we believe to be the top three trends for investment managers across each of Growth, Efficiency and Risk; highlighted in dark blue above.

Whilst each individual firm will have their specific priorities according to their unique circumstances and objectives; addressing the nine featured trends will help ensure you deliver to your clients' needs in a scalable, robust and compliant way.

Decisive actions in these areas will be crucial in delivering positive outcomes for your business, stealing a march on your competitors, and delivering tangible benefits in 2025 and beyond.

Growth

“With margins compressed, investment firms can’t cost-cut their way to growth. Taking positive action to lead the market in what you distribute, how you distribute it, and how you leverage new technologies will be critical in 2025”

Robert Hupe
Practice Head



Product Expansion

- Diversification away from ‘traditional’ asset classes will continue, and the ability of operating models to support new products needs to accelerate:
 - **Private markets** were once the preserve of institutions and the UHNW, but have now become a retail expectation; and
 - **Digital assets** have moved from technological experiments to mainstream instruments
- 2025 will see the need for **Suppliers to increase their capabilities** to support and empower investment firms to offer and service broader product ranges

Key Impacted Functions:



Expected Impact

- > Operating Model reviews, to **assess ability to support private & digital assets**
- > Service providers trying to embed **enhanced robust capabilities into offerings**



D2C Disruption

- Asset Management will continue to diversify away from large institutional clients, but want to do so without relying solely on intermediaries to access the retail and private wealth markets
- The trend has multiple drivers:
 - Push: Enabling **high margin growth**
 - Pull: Increasing client demand for **low-cost DIY investing**
 - New Enablers: **Improving technology** and **AI enhanced experiences**
- Whilst the trend is not new, the increased momentum will force firms to differentiate their D2C offerings versus the competition

Key Impacted Functions:



Expected Impact

- > Reviews of current D2C operating models, in context of the growth opportunity
- > Identification of **D2C technology partnerships to enable the value proposition**



Generative Artificial Intelligence

- AI has been the ‘buzz-word’ for the last few years, but the majority of live use cases focus on reactive machine-learning and robotics
- 2025 will be the year that the **AI focus broadens beyond ‘efficiency’ to ‘growth’** - leveraging capabilities to:
 - Empower sales and distribution teams to better service clients
 - Provide insights to deliver improved investment mgmt. outcomes
 - Enable enhanced algorithmic and quantitative trading
 - Deliver advanced and bespoke content generation

Key Impacted Functions:



Expected Impact

- > Consolidation of enabling data, fragmented across existing supplier universe
- > Greater appetite for **partnerships with Fintechs** to speed AI evolution

Efficiency

“Cost saving is not always about headcount. Supplier proliferation, private equity investment and market consolidation have created significant opportunities to realise operating model and technology savings across the industry in 2025”

Paul Miller
Chairman



Supplier Rationalisation

- Embracing 3rd party technology and services across the industry has driven many benefits; yet **Supplier Proliferation** creates its own challenges:
 - Greater oversight obligations
 - Increased technology and data complexity
 - Diluted buying power
- In 2025 we will witness more firms reviewing their suppliers, developing a simplified and more cost-effective operating model to deliver their strategy
- We anticipate a trend to **Enterprise Outsource Solutions**; evolving from multiple, fragmented, outsource partners to streamlined and integrated solutions

Key Impacted Functions:



Expected Impact

- > Assessment of the fit of Target Operating Models to growth strategies
- > Implementation of Sourcing Strategy Reviews to **reduce cost and complexity**



Private Equity Opportunity Realisation

- Private Equity activity continued to be a key story in 2024; with Hargreaves Lansdown and Close Brothers Asset Management adding to the list of UK investment firms now under PE ownership
- 2025 will see firms take the required actions to realise the benefits of their investment:
 - Correcting **fragmented operating models**
 - Investing in **technology to drive efficiencies**
 - Realising **synergies across consolidated firms**
- With the 4 to 7 year PE ownership ‘sweet spot’ now applicable to many firms, **readying firms for exit** will be a key theme for 2025

Key Impacted Functions:



Expected Impact

- > Product offering & operating model analysis, to find inefficiencies & duplications
- > Supplier ‘boundary’ reviews to identify **opportunities for rationalisation**



Subscale Asset Owners

- Whilst the consolidation of Local Government Pension Schemes into “megafunds” is the biggest change in decades; this is symptomatic of a wider challenge of sub-scale asset owners
- 2025 will see growing momentum in the **asset owner corporate activity** space, as the Australian Superannuation model tempts firms with:
 - Greater economies of scale
 - Increased market power
 - More efficient operations and adoption of regulatory obligations

Key Impacted Functions:



Expected Impact

- > Corporate strategy reviews in the context of an active M&A environment
- > **Assessment of current supplier model’s ability to support step changes in scale**

Risk

"Whilst investment firms may have addressed the immediate obligations of Operational Resilience, high profile regulatory failings in 2025 will continue to highlight the need for enhanced supplier oversight and better technology"

Dean Lumer
Managing Director



Operations Governance

- 3rd parties are critical to the operating models of investment firms, and whilst 80% of firms agree that supplier management is focus for senior management, fewer than 40% see increasing investment. As such, they risk:
 - Processes and controls that are not robust enough to meet Operational Resilience and DORA requirements;
 - Cost efficiencies not being realised;
 - Commercial terms lagging the market; and
 - Performance not enabling the growth objectives
- Against a market skills shortage backdrop, robust **scalable growth** requires well **defined supplier governance and oversight**, supported by **insightful data**

Key Impacted Functions:



- Expected Impact > **Supplier governance and operating model reviews**
> **Investment in technology** to enhance supplier oversight



Regulation

- Regulation will always drive change in the investment management sector and 2025 will be no different
- In addition to executing Operational Resilience and DORA, and the adoption new rules for oversight of CTPs; firms need to be mindful of FCA focus on:
 - Nth Party supplier oversight
 - Managing emerging risks in digital and technology innovation
 - Consumer Resilience
- It would be of no surprise to see an example being made of a large player (particularly following the Op Resilience deadline) to stimulate more robust market responses

Key Impacted Functions:



- Expected Impact > High profile headlines on failures to demonstrate operational resilience
> Firms executing greater **supplier look-through oversight**, and **ongoing due diligence**



Private Assets Complications

- Private Market assets now exceed \$14tn, with UK AUM trebling in 10 years
- However, with rapid expansion come risk, particularly with assets that are difficult to price and inherently illiquid. We therefore anticipate 2025 will see:
 - **High profile mispricing issues** as a result of legacy models that are at best inconsistent, and at worst opaque and unreliable; and/or
 - **A run on illiquid assets** that can't be realised
- Both events will
 - **Negatively impact market sentiment**
 - Create **downward pressure on valuations**
 - Increase the already **heightened regulatory scrutiny**

Key Impacted Functions:



- Expected Impact > **Reviews of pricing and liquidity methodologies and associated operating models**
> Increased pressure on service providers to support

KnadelSolutions is the leading independent specialist in supplier management for the financial services industry. We provide asset managers, asset owners, wealth managers and service providers with the tools and expertise to deliver best practice supplier governance and oversight.

Our goal is to help you manage and govern your suppliers above and beyond the demanding regulatory requirements – across:

- **Consulting Advice** - leveraging industry experience, peer group data and market insights to optimise your use and management of suppliers
- **Services** - delivering cost effective outsourced supplier management services, enabling scalable growth, and regulatory compliance, without detracting from your core competencies
- **Technology** – SupplierVision is the comprehensive supplier management solution designed for the investments industry; empowering you with the data and tools to manage and oversee your suppliers, and demonstrate regulatory best practice.

We would be delighted to discuss further how we may help you optimise your supplier relationships.



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Empowering investment firms to receive the right service, at the right price, for the right risk from their suppliers