Absolute Growth is Absolutely Flawed:

Smarter strategies to beat the competition

The Knadel Solutions
2026 Perspectives

Overview

It is great to see that the **first few weeks of 2026 have seen a real buzz of activity** across the investments industry, and as we consider what that will mean for the rest of the year, it is worth looking back on the context of 2025:

- Global equity markets rode widespread geopolitical threats to deliver strong growth to near record highs; whilst fixed income faced headwinds from ongoing inflationary threats; and gold cemented its safe-haven status;
- Active Management saw a push-back against the shift to passives, with a resurgent belief in the value of alpha;
- Private Markets showed a steady recovery against a challenging environment, with portfolio allocations continuing to trend upwards;
- M&A continued to dominate the industry, and whilst absolute numbers may be down in some sectors, values were up; with Wealth Management still at the epicentre of the activity;
- Artificial Intelligence moved from experimental to core, but the opportunity and journey ahead remains significant; which in turn shines a greater light on data, with a focus on quality rather than quantity as a pivotal foundation of a future state operating model
- Cybersecurity and resilience moved from Technology and Risk functions to the Boardroom;
- And suppliers to the industry came under increasing pressure to demonstrate their ability to support the above; evolve their offerings on robust platforms, delivering demonstrable value.

Against this backdrop we have seen an interesting tension in the industry – **record breaking AUMs** accompanied by **uncontrolled costs**, creating growing **pressures on profit margins**.

Whether publicly listed or PE backed, the scrutiny on firms is now not on AUMs growing with a rising tide – but profit margins expanding through judicious management of the business.

2026 will not be about highlighting those that are blinded by absolute growth, but rather those who **invest smartly** and **act decisively** to create a model that **increases value** in a positive environment, and delivers protection when markets correct:

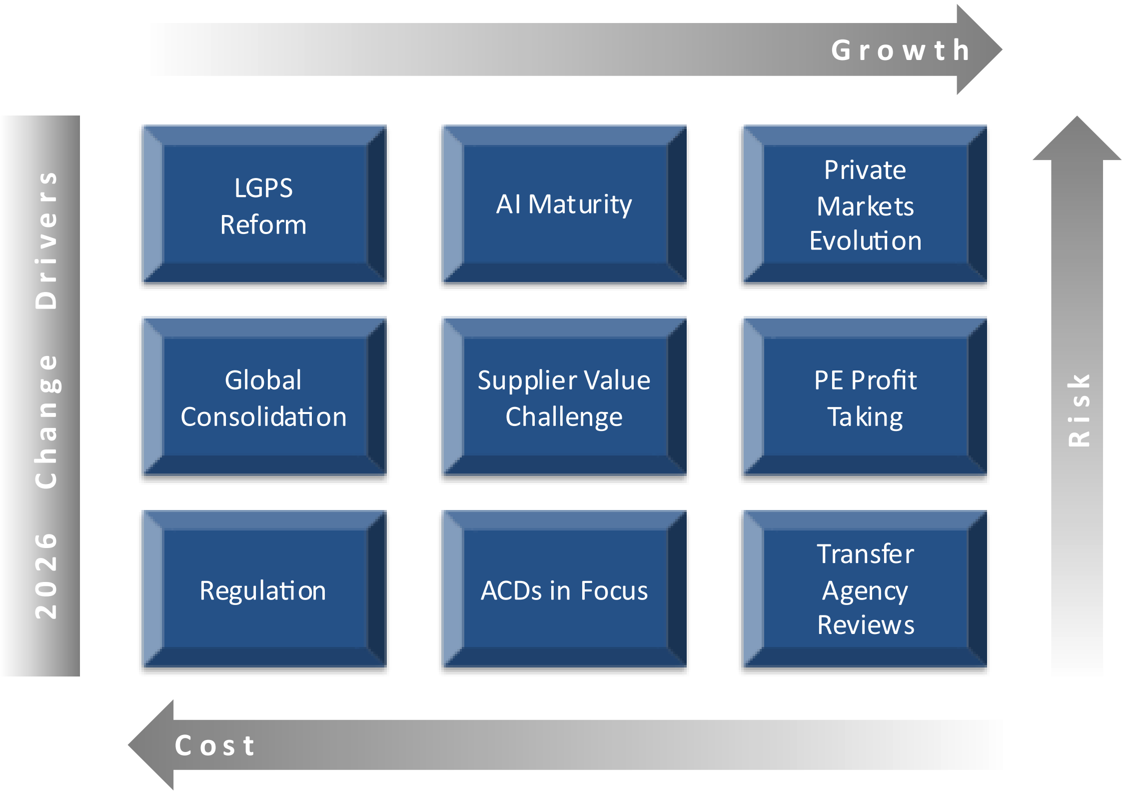
- **Enhancing Growth:** Enabling the sale of in-demand asset types across expanding geographies with market leading client experience
- **Driving Efficiency:** Rationalising internal & supplier expenditure, and leveraging technology & AI to reduce the marginal cost of delivery
- **Mitigating Risk:** Minimising manual activities to reduce errors, and creating resilience in the operating model and full supply chain to protect against ever increasing threats

Overview

2025 saw activity in response to these opportunities and threats growing in Q4, and in 2026 are already witnessing demonstrably more initiatives taking place.

Firms are reviewing their operating models, rationalising suppliers, seeking improved terms and increased value, converting AI PoCs into meaningful changes to how they operate, and looking for ever increasing ways to enable scale.

In this paper **Knadel***Solutions* have highlighted our top three trends for 2026 investment managers across each of Growth, Efficiency and Risk:



Complacency driven by absolute growth will be the quiet killer for those that don't maximise their opportunities and tackle the threats head on.

Growth

"A push for growth in margins rather than solely growing assets is driving activity. Whether PE firms are seeking to realise profits or public firms are driven by the share price, expanding into new asset classes, new geographies or new client segments has to be achieved in a scalable and sustainable way"

Robert Hupe
Practice Head

Private Equity Profit Taking

- Recent years have seen ever increasing PE ownership and consolidation of asset and wealth managers, but '25 saw drop off in the rate of activity
- Deals still took place (*Stonehage Fleming & Stanhope to Corient, and JHI to fall under Trian*), but the story evolved to PE exits and profit realisation
- Evelyn Partners (under joint PE ownership, Permira & Warburg Pincus) is for sale, with Natwest, Barclays and RBC all rumoured to be interested
- The outcome of this deal may be a bellwether for the industry, and:
  - Provide opportunity for large banks and wealth managers to grow through acquisition as more firms come to market, and
  - See PE backed firms prepare firms for sale

Key Impacted Functions:

STRATEGY
SALES & DISTRIBUTION
INVESTMENT MGT. | PRODCTS | OPERATIONS | TECHNOLOGY
RISK & COMPLIANCE

Expected Impact

> Increase in pace of **cost-save change activity** as PE firms go to market
> Opportunity for acquisition and **op model consolidation** for major acquisitive firms

Artificial Intelligence Maturity

- After all the noise, AI is now the norm for most – with 73% of organisations stating it is critical to their future
- 2026 is seeing the shift from automation of manual processes and cost saves, to value add across the business:
  - Empowering research and investment decision making
  - Enabling client personalisation
  - Enhancing controls, compliance and risk management
  - Driving end to end efficiency
- Firms are now working to ensure the technology is integrated into a seamless operating model, and their data meets the new needs
- And AI governance is now crucial to create and retain the trust in technology

Key Impacted Functions:

STRATEGY
SALES & DISTRIBUTION
INVESTMENT MGT. | PRODCTS | OPERATIONS | TECHNOLOGY
RISK & COMPLIANCE

Expected Impact

> **Operating model and data reviews** to create robust platform for AI to thrive
> Focus on **AI policies and governance** for internal control & external perception

Private Markets Evolution

- Private markets are now an established major asset class integrated into institutional and private wealth portfolios
- But in order to support this trend in recent years, firms have createse 'bolt-ons' to their core operating model, stretching legacy tech, manual processes and supplemental third-party tools
- 2026 is already seeing greater focus on:
  - Seamlessly integrating Private Market tools into core operations, and
  - Enabling Total Portfolio Views for the managers, owner and/or clients

Key Impacted Functions:

STRATEGY
SALES & DISTRIBUTION
INVESTMENT MGT. | PRODCTS | OPERATIONS | TECHNOLOGY
RISK & COMPLIANCE

Expected Impact

> Review **dealing, liquidity mgt & servicing models** for evergreen, ELTIF & LTAF growth
> Suppliers 'upping their game' to offer **more integrated solutions**

Efficiency

"80% of my spend is on external suppliers. My focus is on rationalising the spend, and ensuring it delivers value, in support our expansion"

COO
Asset Manager Chairman

Supplier Value Challenge

- Questions are being raised as to the value being provided by some Third-Party Administrators
- Whilst cost benchmarking may ensure approximate alignment of fees to market peers – more firms are asking:
  - Do my suppliers deliver the performance & service we need?
  - Are they meeting their sales promises?
  - Are we tracking their outcomes and the alignment to our strategy?
  - Could we achieve more?
- Rather than complacently continuing with current state, more focus is being put on the supplier outcome achieved from this significant direct expenditure

Key Impacted Functions:

STRATEGY
SALES & DISTRIBUTION
INVESTMENT MGT. | PRODCTS | OPERATIONS | TECHNOLOGY
RISK & COMPLIANCE

Expected Impact

> A shift in supplier oversight, from risk to monitoring/challenging of **value delivered**
> Supplier relationship reviews to inform **Renew, Renegotiate or Replace** decisions

Global Consolidation

- With growth in assets, comes opportunity for expansion into new markets, with the Middle East a prime example *(see the 40%+ increase in new asset-management licences issued in the UAE from '23 to '25)*.
- But expansion is highlighting fragmented operating models that fall into the trap highlighted in this paper i.e. absolute growth over profitable scale
- Whilst 'build then grow' might not be viable, any expansion must be rapidly followed by the activity to deliver scale:
  - Consolidation of disparate operating models onto a global platform
  - Supplier rationalisation and global contracts negotiated with greater buying power
  - Global Data strategy and architecture

Key Impacted Functions:

STRATEGY
SALES & DISTRIBUTION
INVESTMENT MGT. | PRODCTS | OPERATIONS | TECHNOLOGY
RISK & COMPLIANCE

Expected Impact

> Design of new **global Target Operating Models** and **Data Architectures**
> **Global Sourcing Strategies** to rationalise, reduce cost and complexity

LGPS Reform

- LGPS reform continues, with the UK Government driving the consolidation of asset pools from eight to six by the end of Q1, to cut costs, increase buying power, and improve governance
- Administering authorities are required to delegate investment strategy implementation to their pool, adopt the pool's advice, and transfer all assets to pool management
- As a result significant activity will follow:
  - Centralising mandates and renegotiating fees, and more significantly
  - Shifting more activity in-house; creating the need to build or grow current investment management and operational capabilities

Key Impacted Functions:

STRATEGY
SALES & DISTRIBUTION
INVESTMENT MGT. | PRODCTS | OPERATIONS | TECHNOLOGY
RISK & COMPLIANCE

Expected Impact

> Defining of new **investment management strategy**
> Design of **in-house operating models** 'top to bottom' internal & supplier enabled

Risk

"We find that the some of the lowest profile components of the operating model generate the most risk, and we are looking at this very closely with Operational Resilience only getting bigger"

CRO
Asset Manager

Transfer Agency Reviews

- As we support our clients in developing optimal operating models to achieve their strategic ambitions, Transfer Agency has been a common challenge
- With high volume of activity for low direct value, and errors potentially impacting the end clients, ineffective TA can create a real headache
- As a result, we are seeing increasing reviews of current TA arrangements, with nothing 'off the table';
  - Outsourcing current in-house arrangements
  - Migrating from one provider to another
  - Insourcing to take greater control
  - Exploration of 'disruptor' technology and new market offerings

Key Impacted Functions:

STRATEGY
SALES & DISTRIBUTION
INVESTMENT MGT. | PRODCTS | OPERATIONS | TECHNOLOGY
RISK & COMPLIANCE

Expected Impact

> **Transfer Agency current state reviews**
> **Supplier selections and migrations** with the some seeking early mover advantages

ACD's in Focus

- The Woodford saga in 2019 threw ACD's into a spotlight that they have retreated from in the intervening years
- However, we are beginning to see increasing questions being asked again about ACDs; not from a position of fear, but as part of a coherent strategy:
  - Does the size of my firm better align to in-house or outsourced?
  - Where do the accountabilities and responsibilities sit between the investment manager and the ACD, both in theory and in practice?
  - What value am I getting from my ACD?
  - How does my choice of ACD align to my relationship with my other TPAs?

Key Impacted Functions:

STRATEGY
SALES & DISTRIBUTION
INVESTMENT MGT. | PRODCTS | OPERATIONS | TECHNOLOGY
RISK & COMPLIANCE

Expected Impact

> **ACD benchmarking** and **operating model reviews**
> Greater external **ACD oversight and value assessments**

Regulation

- 2026 sees Consumer Duty and Operational Resilience as continuing key pillars – with the latter to come under more and more focus. Key dates includes:
  - PISCES (platforms for trading private company shares) - Q1
  - PRIIPS/ Consumer Composite Investments (CCI) & AIFMD 2.0 - April
  - Overseas Funds Regime (OFR) in Q4 and Sustainability Disclosure Requirements (SDR) in December
- In addition
  - Private Markets consultation and Fund tokenisation policy statements will take place in H1, and Cryptoassets in Q2
  - Transaction Reporting final rules in H1, with Retail Investment Strategy (RIS) into law by year end

Key Impacted Functions:

STRATEGY
SALES & DISTRIBUTION
INVESTMENT MGT. | PRODCTS | OPERATIONS | TECHNOLOGY
RISK & COMPLIANCE

Expected Impact

> Operational Resilience reviews, with **critical supplier contingency planning** a must
> Regulatory consultations pressuring **operating models for evolving asset classes**

Knadel*Solutions* 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.

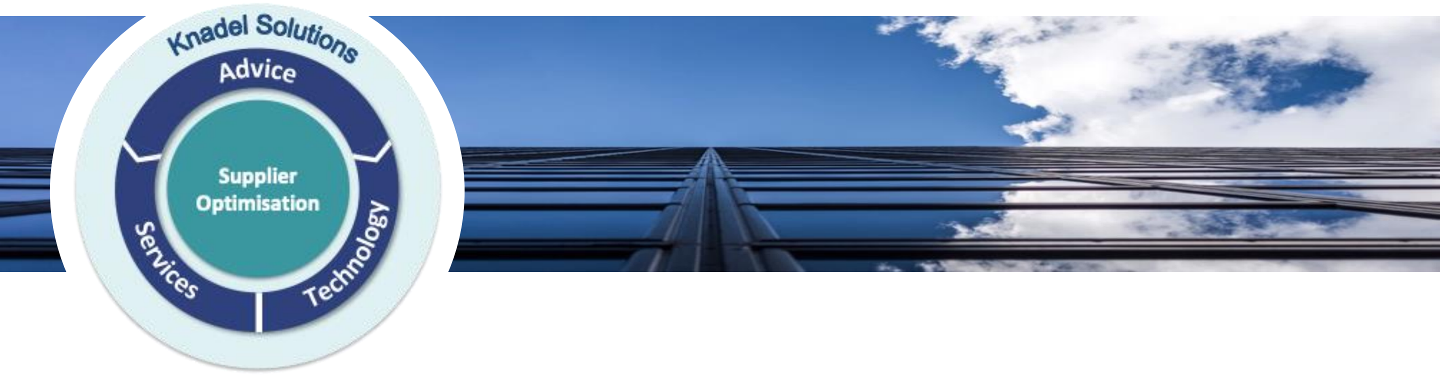
Our goal is to help you manage and govern your suppliers above and beyond the demanding regulatory requirements – across:

- **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** – **Supplier***Vision* 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.



+44 20 7489 6375   info@knadelsolutions.com   www.knadelsolutions.com

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