



VENTURES
w/OUT
BORDERS

VWB Insights

CONSOLIDATION IN THE WEALTH MANAGEMENT SECTOR

Potential Projections for
Emerging Markets



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Ventures Without Borders: Facilitating Private Equity Investment in Emerging Markets

Ventures Without Borders (VWB) specializes in guiding global investors and local companies through private market investments in emerging markets. By leveraging our deep market insights, extensive network, and strategic expertise, we help investors identify lucrative opportunities while managing associated risks. VWB offers end-to-end advisory services, from market entry strategy and due diligence to deal structuring and post-investment management, ensuring that our clients can succeed emerging markets with confidence.



MarketGlide: The First Integrated Investment Platform for Emerging Markets

Currently under development by Ventures Without Borders, **MarketGlide** is the first integrated investment platform specifically designed to transform how private market investments in emerging markets are sourced, analysed and executed.

MarketGlide not only streamlines investment processes but also places a special focus on its vibrant community of investors, local partners, and project developers. This platform is tailored to enhance connectivity and leverage the growth potential within these regions. Features include:

- **Curated Investment Opportunities:** Gain access to a carefully vetted selection of high-potential infrastructure projects across key sectors such as transportation, energy, and telecommunications.
- **Advanced Analytics:** Utilize our comprehensive analytics and data insights to assess investment viability, risk, and expected returns with greater precision.
- **Collaborative Community Tools:** Our platform facilitates seamless collaboration, enabling investors to connect, share insights, and work together with local partners and project managers.
- **Regulatory Compliance Support:** Receive guidance about complex regulatory frameworks with tools designed to ensure full compliance and operational transparency.

By integrating these essential functionalities, MarketGlide empowers global investors to make well-informed decisions and capitalize on the substantial growth opportunities that emerging markets offer.

Join our community to connect with like-minded professionals and explore the frontiers of investment in some of the world's most promising regions.

Executive Summary

The wealth management sector is experiencing significant consolidation, spearheaded by evolving regulatory environments, technological advancements, market pressures, and demographic shifts. With the average age of financial advisors at 59, and only 6% under the age of 30, the industry is adapting to a shortfall of advisors, prompting consolidation.

Private equity investment has surged in recent years, with Houlihan Lokey predicting the UK sector will consolidate into fewer, larger independent players. Consolidation involves merging assets, liabilities, and operations of multiple entities, leading to economies of scale, enhanced competitive positioning, and access to capital for growth.

Emerging markets present substantial opportunities for consolidation due to their rapid economic growth and fragmented financial sectors. Rising disposable incomes and increasing numbers of high-net-worth individuals (HNWIs) and ultra-high-net-worth individuals (UHNWIs) are driving demand for sophisticated wealth management services. Consolidating smaller local firms allows larger entities to quickly gain market presence and operational efficiencies.

Innovative investment platforms, such as MarketGlide by Ventures Without Borders, facilitate strategic partnerships and co-investment opportunities. MarketGlide connects global investors and investees, using AI-powered analytics to personalize investment matches, streamline co-investment processes, and support successful mergers and acquisitions in emerging markets.

Ventures Without Borders' view is that consolidation in the wealth management sector is accelerating, offering significant growth potential in emerging markets. Strategic use of technology and integrated investment platforms like MarketGlide can propel these opportunities forward, ensuring sustainable growth and enhanced service offerings.

Industry Overview

The Wealth Management Industry utilizes financial services to address the needs of affluent clients, often categorised as High Net Worth Individuals (HNWI) and Ultra High Net Worth Individuals (UHNWI). Financial advisors determine the specific needs of their clients and tailor a personalised strategy for managing their wealth, utilising financial products and services.

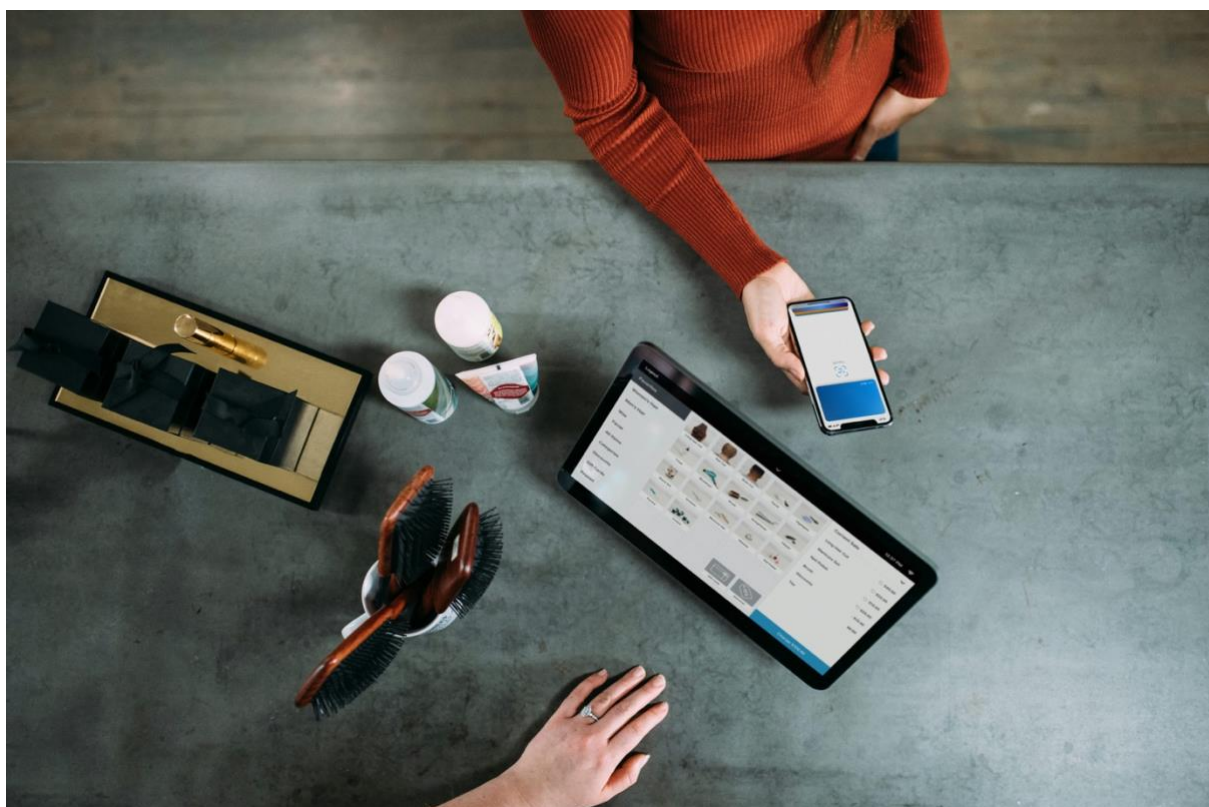
Clients often possess complex needs, with wealth management professionals providing a comprehensive approach ranging from estate planning to tax services. For instance, a client with £10 million in investable assets, and a trust for their children, would require a wealth management office to invest these funds, yet also account for tax minimisation and estate planning. These services will usually consider the philanthropic and miscellaneous requirements which their clients demand.



Drivers of Consolidation

The rise of consolidation in the sector is multifaceted, stemming from both the needs of wealth management firms and the desire for growth. For instance, the emergence of FinTechs has transformed the dynamics of the wealth management industry through novel private banking products and services. FinTechs tend to operate at lower costs and are able to facilitate far greater capacity for banking, outcompeting traditional financial advisors. A striking example of this is shown through Octopus Money (or Octopus Wealth) which leverages technology to offer innovative financial services and solutions in an attempt to democratise access to financial advice.

These FinTechs have arisen, largely due to increasing client acquisition costs, making it far more expensive for wealth management firms to utilise traditional methods such as face-to-face meetings and personalized services. With competition intensifying, firms must invest more into marketing and outreach, ultimately increasing overall acquisition costs.



The ageing customer base has exacerbated this further, with older clients demanding more personalized attention and services, which can be resource intensive. This has catalysed consolidation in the sector, with larger firms leveraging economies of scale to manage these costs more effectively, whilst still providing high-quality services to their clients.

This has compounded with the shifting regulatory environment which has subjected the wealth management sector to stringent regulatory requirements. Smaller firms are struggling to survive the complex regulatory environment; thus, the regulatory burden has necessitated consolidation. This is because larger firms are far better equipped to absorb these costs and manage compliance more effectively.

Additionally, generational differences in clientele notably show diverging needs which wealth management firms have been slow to meet. Younger clients favour digital and automated solutions over traditional advisory services, prompting substantial investment into modern technologies and platforms to meet these preferences. Research & Development is a costly endeavour for smaller, traditional wealth management firms. These firms often lack the expertise or funding to warrant such investments. Therefore, consolidation enables firms to pool these resources and invest into the necessary technology to appeal to this demographic.

Lastly, acquisitions have been used as a lucrative corporate tool to enhance profitability and swiftly gain market share in the competitive wealth management sector. Through acquisitions, firms can expand their client base, enhance their service offerings, exploit synergies, and achieve greater market share. Hence, consolidation through acquisitions allows firms to benefit from increased scale, operational efficiencies, and enhance their competitive advantage. This is required to compete with the barrage of FinTechs which have disrupted the market and are better poised for younger generations of clientele.



Case Studies

In the first nine months of 2023, wealth management firms have conducted 503 M&A deals in the sector, with the majority of undertakings occurring in the Americas. The bulk of consolidation activity is undertaken by wealth management firms, however significant private equity investment has continued to grow. For instance, Preservation Capital Partners became the largest shareholder in Saltus, one of the fastest growing wealth management firms in the United Kingdom. Saltus conducts financial planning and investment management services, with an emphasis on tech-savvy operational execution. This follows significant acquisition efforts made by Saltus in the years leading up to their acquisition.

Additionally, KKR, a global PE firm, invested in Focus Financial Partners in 2017. Focus Financial Partners is a partnership of independent, fiduciary wealth management firms. KKR's investment supported Focus Financial Partners' strategy of acquiring and partnering with high-quality independent wealth management firms across the United States, further enhancing its position as a leading player in the industry.

These acquisitions highlight a growing trend of private equity investments into the wealth management sector. This undoubtedly comes with numerous benefits and drawbacks, primarily a growing access to capital which provides wealth management firms the ability to pursue aggressive growth strategies. Perhaps, this includes expanding the geographic footprint, acquiring new clients, and investing in technology and infrastructure.



Despite this, there are fears that the windfall of private equity investment will pose challenges to cultural integration with private equity firms determined to exploit the bottom-line, whilst wealth management firms aim to retain clientele through, often expensive, tailored services. In particular, there is significant risk to client relationships where potential changes in the advisory team would diminish the wealth management firm's ability to offer a high-quality service. This is a likely drawback as firms consolidate to tailor to far larger pools of clients which may prefer access to a localised and familiar team of financial advisors.

Potential for Consolidation in Emerging Markets

Emerging markets, characterised by rapid economic growth and evolving financial sectors, offers fertile ground for consolidation activities. This robust economic expansion has translated into rising disposable incomes and an increasing demand for wealth management services. Hence, there is a rapidly growing pool of HNWIs and UHNWIs in emerging markets, who seek sophisticated financial advisory services. Hence, Ventures Without Borders posits that wealth management firms can capitalise on this growth by consolidating smaller, local firms to quickly build scale and market presence. In particular, emerging markets offer an attractive pool of small and mid-sized firms for established firms, in developed markets, to consolidate.



In its current form, many emerging markets possess highly fragmented financial sectors, with smaller firms operating independently. This fragmentation presents a significant opportunity for larger firms to engage in mergers and acquisitions (M&A), thereby streamlining operations and enhancing service offerings. By acquiring smaller local firms, larger wealth management companies can gain immediate access to new client bases, local expertise, and established networks, thus facilitating a smoother and more effective market entry.

Therefore, consolidation in emerging markets enables wealth management firms the opportunity to diversify their risk profiles, whilst establishing a much-needed foothold in high-growth markets. By spreading their operations across multiple regions and client segments, firms can mitigate the impact of economic volatility in any single market. This geographic and demographic resilience is highly valuable, especially when considering that the majority of financial advisors only offer services to local clientele, increasing their exposure to local and national economic events.

Ventures Without Borders can support this consolidation through facilitating strategic partnerships and identifying co-investment opportunities. Collaborating with local firms and institutional investors, in emerging markets, can provide additional capital and expertise, facilitating successful M&A activities. Co-investment strategies allow firms to share the financial risks associated with acquisitions and leverage the combined strengths of their partners to promote growth and expansion in the, often tumultuous, wealth management sector.



Strategic Recommendations (MarketGlide)

MarketGlide is highly valuable for identifying and facilitating co-investment opportunities, utilising AI to curate a dynamic community of investors and investees, seamlessly matched in terms of their preferences. By providing a platform for interaction and collaboration, MarketGlide effectively identifies local partners, financial institutions, and other stakeholders to accelerate the search for investment. This connectivity is remarkably useful for forming strategic partnerships which enable successful mergers & acquisitions (M&A).

For instance, MarketGlide identifies investors with similar preferences, informing them of fitting investments and allowing them to co-invest seamlessly. By pooling resources, wealth management firms can leverage their combined capital and expertise, making it easier to finance acquisitions and expansions in emerging markets. Not only does MarketGlide identify potential opportunities, but it enables the trust required to facilitate co-investment opportunities which may otherwise go unfunded.

Data is at the centre of MarketGlide, ensuring that investors and investees possess full knowledge surrounding their potential partnerships. Users will have access to an AI-powered analytics platform, with the information received personalized to their specific needs. For example, if a wealth management firm excels in tax services, and wishes to expand their estate planning division, MarketGlide is able to personalise recommendations for acquisition based off of this specific need.

Additionally, MarketGlide offers a smooth co-investment matching process, solving the classic issue where investments often fall through due to a lack of co-investment, typically caused by the lack of transparency and trust between financial institutions. MarketGlide remedies this by ensuring that data is swiftly transferred to potential investors and investees, giving the client sufficient information to invest safely and successfully.



Conclusion

The wealth management sector's shift towards consolidation has accelerated due to a combination of regulatory changes, technological advancements, market pressures, and demographic trends. The influx of private equity investment and the ageing advisor workforce necessitate consolidation to achieve economies of scale and competitive advantages. Emerging markets offer substantial opportunities due to their rapid economic growth and fragmented financial sectors.

Innovative platforms like MarketGlide facilitate strategic partnerships and co-investment opportunities, ensuring that wealth management firms can capitalise on these trends. By leveraging technology and collaboration, firms can achieve sustainable growth, enhanced service offerings, and a resilient presence in both developed and emerging markets.

