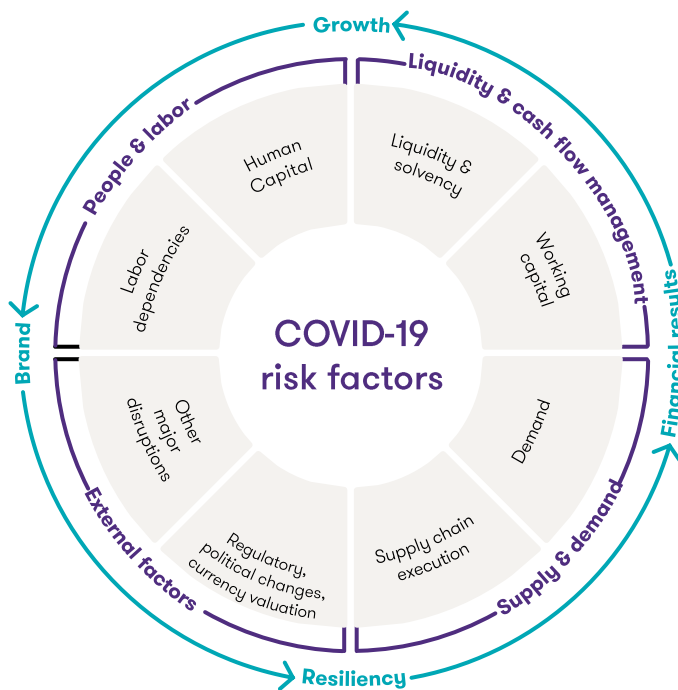


Pandemic resiliency and response for asset managers

Playing a critical strategic advisor role in the pandemic and beyond

The COVID-19 pandemic has created obvious short-term implications and many anticipated long-term implications. Asset management organizations are at the center of this disruption and are uniquely positioned to help working individuals, retirees, pension funds, governments and other institutions navigate global market volatility and swift re-pricing of assets based on the daily news cycle, infection rate statistics as well as fiscal, monetary and health policy responses across the world.



Resiliency starts with a commitment to identify and mitigate risk factors that can further disrupt your business

Top immediate impacts

Now is the time for asset managers to think beyond previous approaches to their strategic advisor role. Three critical questions will help you determine your readiness:

- Can you still advise your clients in an effective manner?
- Are your strategies and advice as relevant today as they were yesterday?
- Has your cost of distribution and operations adjusted to the challenges in fund flows?

Looking at future impact & opportunities

Through our experience across all facets of the industry, we have seen several trends arise, which we expect to continue to accelerate and have significant operational, accounting and tax implications:

- **Profit squeeze exacerbated.** With AUMs marked down significantly, near-term revenue will put financial pressure on asset managers. Survival via M&A is a route many will take while doubling-down on efficiency and digital initiatives.
- **Digital-first and automation imperative intensifies.** Scale and a comprehensive product portfolio will be a winning strategy for the largest players while specialists that deliver performance will attract significant investors. Many will be caught in the middle and seek new ways to differentiate through performance plus client experience. The automation imperative remains and all responses will need to be grounded by a dynamic data infrastructure.
- **Sustainability and ESG Integration accelerates.** While the COVID-19 crisis is an exogenous event, the societal reverberations will significantly increase attention to the risks behind the "S" in ESG. Asset managers should increase focus on companies' emergency response mechanisms, cyber security, employee benefits and operational integrity. These concepts apply to the investment process and the investment management firm itself.
- **Opportunities abound for innovative tax planning and cash management.** Significant opportunities for new and innovative tax planning position you for instant cash savings while planning beyond the 2020 tax year – at an investor, fund and management company level.

What asset management executives should consider

Immediate considerations

1. Engage, engage, engage!
 - Speak with clients through their preferred channels and styles. Be ready to facilitate solutions to a wider range of business problems and make your specialists available to them in more accessible ways.
 - Reach out to portfolio companies, both public and private, to explore ways to support them through strategic investments, curated capital introductions or other creative problem solving that can help businesses survive.
 - Contact public stakeholders, supervisors and governments to participate in the evolving regulatory response and go-forward framework.
2. Get the most out of newly enacted legislation and tax changes and incorporate opportunities as part of your broader tax and cash management strategies.
 - Small business loan programs – assess qualification for newly enacted loans which may be forgivable if certain requirements are met to deal with short-term cash and payroll issues.
 - Payroll relief – take advantage of the employer payroll tax postponement through the remainder of 2020.
 - Engage with portfolio companies to capitalize on tax legislation to stimulate cash preservation, including net operating loss (NOL), carry-forward and carry-back provisions.
3. Increase attention on and re-calibrate valuation policies, practices, models and data sources.
 - Adapt historical models to better incorporate zero / negative rates and related changes to realized cost of capital versus theoretical.
 - Upgrade data sources and quality controls to take into account current market conditions, unless observable trades and prices are not indicative of an arm's length transaction and not under distressed conditions.

Long-term considerations

1. Accelerate initiatives that 'tick the box' on both digitization and efficiency. Scrutinize projects and internal initiatives, but do not abandon the core capabilities needed for enabling a truly digital asset management business.
2. Double down on sustainability and transparency related initiatives in both the investment process and your internal business practices. Current and potential clients will apply additional scrutiny when allocating dollars in the future and authenticity will be rewarded.
3. Ensure business continuity by revisiting business scenarios and low-probability / high-risk events. While these are often addressed in portfolio and investment risk modeling, they are just as important in operational risk management of asset management business and should include a range of new scenarios for which planning is needed.

At the ready to help you

Grant Thornton's asset management specialists bring comprehensive knowledge based on serving every facet across the industry, from mutual funds, institutional managers, hedge funds and private equity firms to business development companies, fund administrators and custodians. Our specialists are on standby to help you across a range of pressing issues and opportunities, including:

- Performing a COVID-19 disruption business risk assessment
- Refreshing your emergency operations and resiliency plan
- Identifying valuation policies and tax strategies needed to keep you moving forward
- Addressing changes that should be made in monitoring existing risks and quantifying emerging risks

Contacts



Michael Patanella

National Leader & Audit Leader
Asset Management
T +1 212 624 5258
E michael.patanella@us.gt.com



Steven Winter

Leader, Tax Services
Asset Management
T +1 212 624 5434
E steven.winter@us.gt.com



Johan Joseph

Leader, Advisory Services
Asset Management
T +1 312 602 8618
E johan.joseph@us.gt.com



"Grant Thornton" refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

© 2020 Grant Thornton LLP. All rights reserved. U.S. member firm of Grant Thornton International Ltd.