

3. Asset management

THIS CHAPTER IN 1 MINUTE

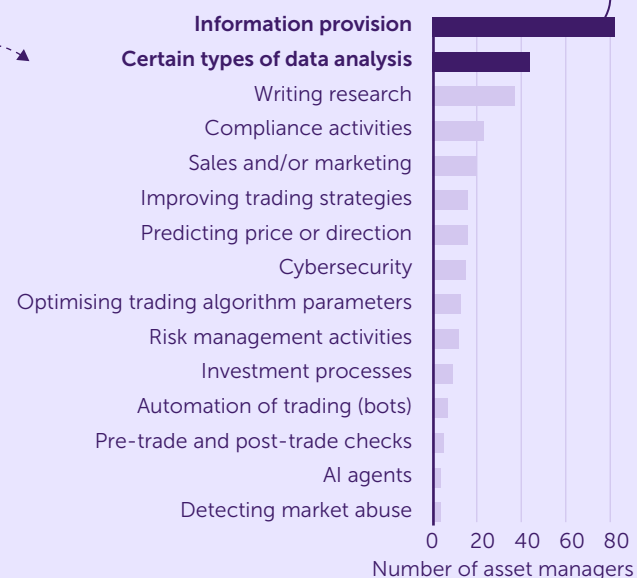


- **Outsourcing and consolidation** in the asset management sector continues. **Economies of scale** are important for small and medium-sized entities because of enhanced efforts in the field of compliance and risk management.
- **Cyberattacks** are increasing in number and severity; this not only has an impact on the business operations of individual asset managers but can also have a **disruptive effect on the market**.
- The use of **AI applications** by asset managers is increasing. AI is mainly used for information gathering and data analysis. The use of AI or GenAI to improve trading strategies, among other things, is likely to increase in the future. Managing **the inherent risks** therefore remains important.
- Providing **correct and clear sustainability information** requires continued attention, also in view of the changing regulations and the political climate with regard to sustainability.
- In the upcoming period, the implementation of new European laws and regulations and the further establishment of the European Savings and Investments Union (SIU) will have an impact on the **playing field and competitiveness** of the European asset management sector.

In which day-to-day activities is AI used?

A total of 323 asset managers were surveyed. Multiple answers could be given to this question.

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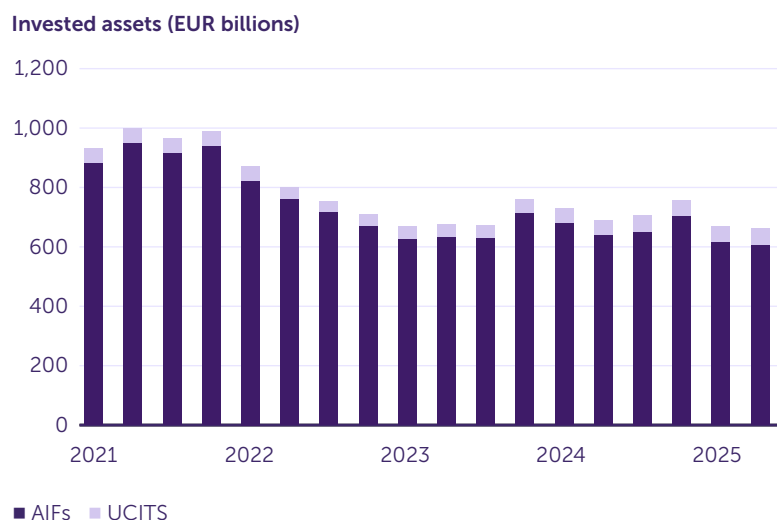


Source: AFM research, Q1/Q2 2025

General developments

Invested assets in Dutch investment funds fell slightly in the first half of this year to around €670 billion (Figure 3.1). The decline in the total value (of both Alternative Investment Funds (AIFs) and Undertakings for Collective Investment in Securities (UCITS)) is mainly due to a relocation of funds domiciled in the Netherlands to other countries and a shift in assets from funds to segregated mandates, i.e. tailor-made portfolios for individual clients, often with specific investment guidelines.

Figure 3.1 invested assets in Dutch investment funds have fallen slightly in 2025.



Source: Morningstar and AIFMD data, up to and including 30 June 2025.

In April 2025, mutual funds experienced sharp price falls and very high volatility due to the trade tariffs announced by the US. However, outflows from Dutch funds have remained relatively limited and, as far as is known, there have been no liquidity problems among funds. While calm seems to have returned to capital markets, policy uncertainty and geopolitical tensions continue to increase the risk of sudden and simultaneous value adjustments in financial and real estate assets. This may lead to outflows from funds, reinforcing existing market dynamics. The current high level of uncertainty in financial markets may prompt investors to revise their outlook. Combined with a potentially increasing need for liquidity, for example due to margin calls, there is a risk of capital movements further fuelling volatility. Large global institutional investors have indicated that they will shift assets from the US to the EU; this is because of concerns about their exposure to US assets.⁴¹ Such a shift in capital requires robust infrastructure to be able to invest assets effectively in Europe. This requires better European cooperation and further deepening of the European capital market, for example by promoting the Savings and Investments Union (SIU).⁴²

Although the number of licence holders, and in particular managers registered under the AIFMD, continues to rise (Figure 3.2), consolidation in the Dutch asset management market continues unabated.⁴³ The number of mergers is increasing in almost all segments, in terms of both the number of transactions and the volume of assets involved. For small and medium-sized managers, scaling is crucial. After all, efforts aimed at being compliant with laws and regulations and arranging processes efficiently and manageably are increasing, while at the same time the leeway to increase management rates is minimal. In acquisitions, the emergence of private equity parties as buyers is visible for the first time. Given the return targets of private equity operators, this reinforces the consolidation trend. The asset management industry is attractive to private equity for several reasons, including the ability to create funding and/or distribution channels for their investment products.

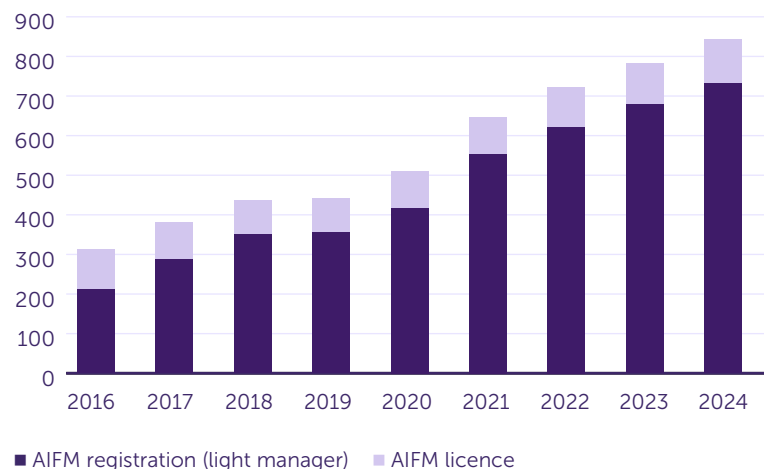
⁴¹ See, for example: '<https://www.ft.com/content/4d7892b3-ec07-4ae9-ae93-dcd34ad42c5b>', FT, May 2025.

⁴² '<https://www.afm.nl/nl-nl/sector/actueel/2025/mei/pb-rapport-financiele-stabiliteit>', AFM, May 2025.

⁴³ An AIFM registration is a requirement in the Netherlands for managers of alternative investment funds (AIFs) that do not have to comply fully with the AIFM Directive.

Figure 3.2 The total number of Dutch managers (licensed and light) continues to increase.

Total number Dutch managers

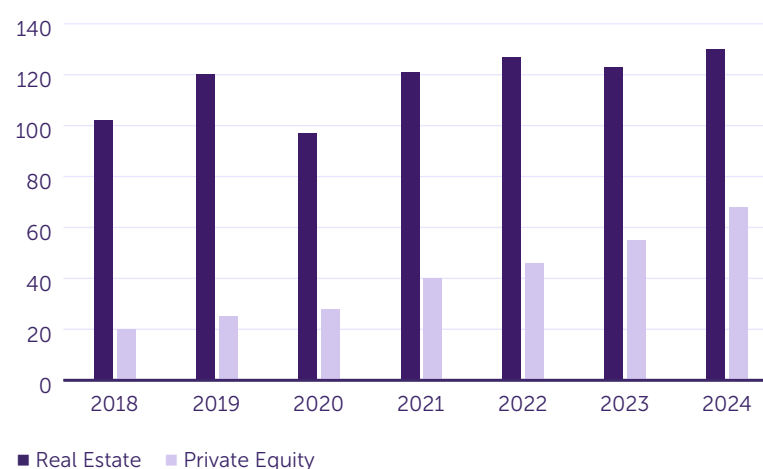


Source: AIFMD data

Investment funds that invest in illiquid assets are particularly exposed to increased liquidity risk and valuation risk. In illiquid and private markets (such as real estate and private equity/credit), relatively few transactions take place and prices are not established on a daily basis. Pricing assets is therefore difficult. This creates the risk of overvalued assets. In addition, there are more and more alternative investment funds (AIFs) with illiquid investments (including private equity) that are offered as open-ended funds. Liquidity is very limited in these types of funds and, if the exit conditions are not properly aligned with the liquidity of the underlying assets, this can result in a liquidity mismatch. As a result, the fund may not be able to meet investors' outflow requests and may have to deploy liquidity management instruments more quickly. Figure 3.3 shows the increase in invested assets in funds with a private equity strategy.

Figure 3.3 The total invested assets of real estate and private equity funds are rising.

Invested assets (EUR billions)

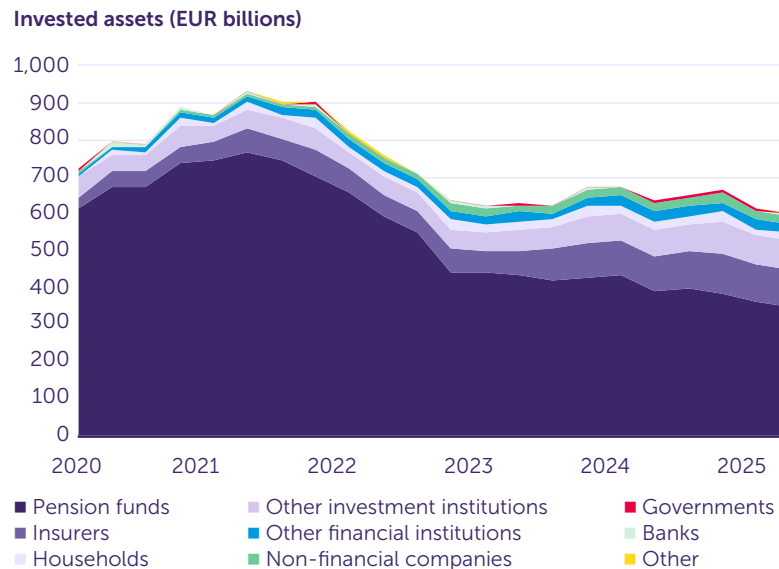


Source: AIFMD data

Dutch banks, medium-sized asset managers and large asset managers are expanding their range of private market funds for wealthy individuals and private banking clients. Entry thresholds and allocation limits are used to limit market and liquidity risks. Although these funds in the Netherlands are still mainly targeting wealthy investors, the offer is increasingly aimed at retail investors, a development that is already more advanced internationally. This broadening entails additional risks, such as valuation uncertainty and mis-selling. Examples include unclear conditions or conflicts of interest around entry and exit moments, such as adjusting valuations just before exit to limit losses or applying restrictions or high and unreasonable charges at the time of exit.

The Future of the Dutch Pensions Act (Wtp) and the strategic reorientation of the institutional market go hand in hand. The introduction of the new Dutch pension system raises strategic issues for a number of institutional asset managers in their asset management proposition for pension funds. In addition, the implementation of the Wtp entails significant adjustments to operational chain processes now that the data and information exchange between pension funds, administrators and asset managers is becoming more intensive. On balance, this is expected to have a positive impact on the quality of the business operations of these institutional asset managers. Dutch pension funds are looking for more flexibility to better pursue their specific investment guidelines, including their sustainability objectives. This requires tailor-made solutions that translate into a movement in which pension funds withdraw assets from investment funds and then allocate them to asset management mandates that seamlessly meet the requirements and wishes of the pension fund in question. Figure 3.4 shows the decline in the invested assets of Dutch pension funds in AIFs.

Figure 3.4 The share of pension funds in the invested assets in AIFs is falling.



Source: AIFMD data

In addition, the Wtp may be a reason for pension funds to reconsider their relationship with their existing fiduciary manager.

This combination of factors may lead to significant changes in the client portfolios and assets under management, and hence in the earning capacity of institutional asset managers in the run-up to or immediately following implementation of the Wtp.

Digitalisation

The growing use of and dependence on IT systems makes asset managers increasingly vulnerable to IT-related incidents, such as corporate identity fraud. One form of corporate identity fraud consists of creating fake websites and social media channels. This involves the use of logos, publications and documentation from existing providers to illegally attract funds and/or mislead customers through pump-and-dump transactions.

Asset management parties are increasingly being targeted by cyberattacks; to further support resilience, particular attention must be paid to outsourced processes. The current geopolitical tensions increase the risk of cyberattacks. Measures are needed to strengthen resilience (especially in the case of legacy IT systems) and to prevent damage as much as possible. This also includes ensuring that asset managers respond to cyberattacks in a timely and correct manner and get their IT infrastructure back up and running with the shortest possible disruption. Even when asset managers outsource IT tasks to service providers such as cloud platforms, they must take robust measures. This includes implementing advanced security protocols, conducting regular risk assessments and ensuring strict adherence to security standards by their service providers.

Digital resilience therefore remains essential for the robust business operations of asset managers. The European Union is placing increasing emphasis on strengthening the digital resilience of organisations, sectors and member states. For the financial sector, including the asset management sector, the Digital Operational Resilience Act (DORA) has been in force since the beginning of 2025 and contains detailed requirements for digital resilience. Digital processes form the modern foundation of the business operations of financial institutions, which means the dependence on IT systems is very high.

Nevertheless, a no-IT scenario can have serious and market-distorting effects. A no-IT situation is a situation in which IT systems fail completely or largely to such an extent that business operations cannot be continued. This situation can arise due to various scenarios, such as cyberattacks, technical failures, internal sabotage or geopolitical tensions that limit access to IT systems. Not only asset management, but also other important and critical functions such as payment transactions and risk management can be brought to a standstill in such scenarios. The consequences of a (possibly prolonged) no-IT situation can be impactful. Long-term operational disruptions at individual institutions affect the continuity of service for customers. Moreover, these can lead to reputational damage and even market instability and system failure: when multiple market participants fail, this can disrupt financial markets and cause a chain reaction with significant consequences for the asset management industry as a whole as well as the wider economy.

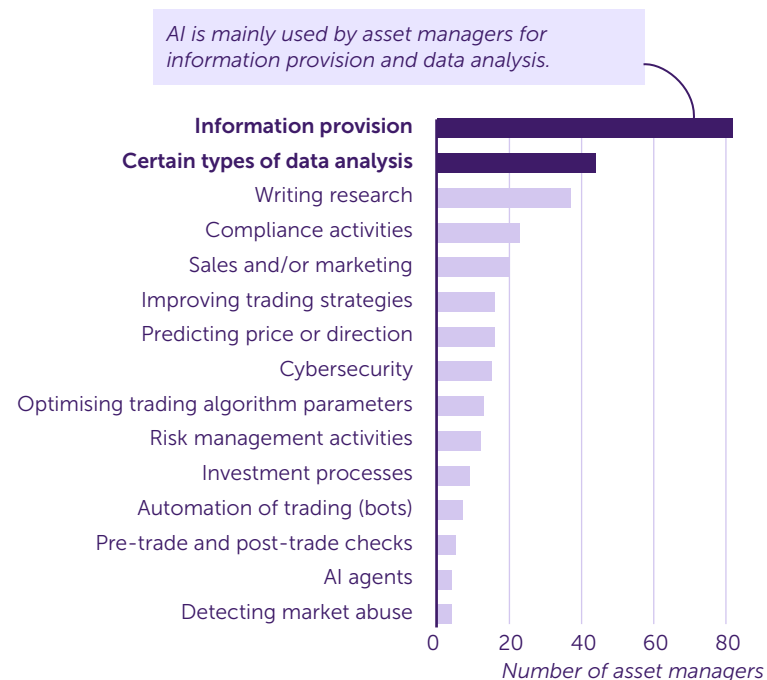
The use of algorithms and other AI applications by asset managers continues to increase. Research by the AFM shows that asset managers currently use AI mainly to collect and analyse information and data (Figure 3.5).⁴⁴ Proprietary traders also deploy AI applications to make price predictions and improve trading strategies.

⁴⁴ AFM investigation Q1/Q2 2025 into the use of AI applications in the Dutch asset management sector.

Figure 3.5 Asset managers mainly use AI applications in the field of information provision.

In which day-to-day activities is AI used?

A total of 323 asset managers were surveyed. Multiple answers could be given to this question.



Source: AFM research Q1/Q2 2025

Asset managers expect to achieve various benefits by deploying AI applications. For example, the use of AI can lead to more efficient processes, which can reduce costs for institutions. In addition, AI can help asset managers to assess risks better and more consistently, provided they have high-quality, complete data and models that can be explained and audited. The AFM study shows that AI can provide efficiency benefits in particular and can help analyse data and

improve processes (Figure 3.6). In the future, the use of AI and GenAI applications by asset managers is likely to increase further. With the help of AI, portfolio allocations and market analyses can be improved. Whether these AI tools will then also make final investment decisions remains to be seen. In any case, it is important that asset managers are transparent towards their clients about the role of AI in their investment policy or portfolio composition.

While the use of AI can improve investment strategies and customer service, it also comes with inherent risks. These risks include algorithmic biases, poor data quality and a potential lack of transparency. After all, advanced AI models can make complex decisions that might not be clearly construed, which may undermine the explainability of financial outcomes. Furthermore, the use of AI by asset managers may lead to dependency risks, partly because there is currently only a limited group of (mainly non-European) technology companies that can provide AI technology. Furthermore, valuation

issues – particularly among smaller AI-related companies and startups – and possible concentrated market exposure also play a role.

Sustainability

The asset management industry plays an important role in meeting customers' demand for sustainable investments. Providing correct and clear sustainability information is important in this regard. Although most funds have the sustainability information required under the Sustainable Finance Disclosure Regulation (SFDR) available, continuous attention still needs to be paid to the quality of this information. When sustainability information from funds turns out to be insufficiently reliable, this can damage confidence in sustainable products.

The field of sustainability information and regulations continues to undergo significant change. Of particular note are the ESMA guidelines for fund names, which have been fully applicable since

Figure 3.6 Asset managers expect these benefits from using AI applications.



Source: AFM research Q1/Q2 2025

this year, and the revision of the SFDR. A proposal from the European Commission for the revision of the SFDR is expected by the end of 2025. It is still unclear how this will work out, especially now that the political climate with regard to sustainability and associated legislation is changing. A consultation from the European Commission has already given a preview of possible adjustments, such as the introduction of sustainable product categories and less comprehensive reporting obligations for companies. These potential changes could have major consequences for parties that need to comply with the SFDR. The entry into force of the amended requirements is expected in 2028 at the earliest.

In the run-up to the entry into force of the ESMA guidelines for fund names, a number of asset managers have chosen to remove or amend sustainability-related terms from fund names. In the market, it is noted that some fund managers have chosen to adjust the names of their funds. Other fund managers have left the names of funds unchanged but have recently adapted their fund documentation and, where appropriate, their investment policies to meet the criteria arising from the ESMA guidelines, for example regarding the number of mandatory exclusions.

Internationalisation

Consolidation and geopolitical developments require asset managers to focus increasingly on their counterparty risk. Due to economies of scale in the form of consolidation (acquisitions) and outsourcing to third parties, the concentration risk and thus the counterparty risk is increasing, and managing these risks is becoming increasingly important. This counterparty risk can take several forms. Asset managers not only outsource investment administration and IT, but also activities that require a licence, such as portfolio management. Asset managers depend on a limited number of cloud and asset servicing providers (mainly US-based). Under these circumstances, it is important that asset managers guarantee a certain autonomy, are sufficiently resilient and pay extra attention to due diligence when entering into and reviewing agreements with third-party providers and outsourcing services. Setting up an oversight function and periodically

reviewing the existing services are part of a mature outsourcing policy. This trend of outsourcing and consolidation may lead to concentration risks if many asset managers become dependent on a limited number of third parties, or if only a few large asset managers with dominant market positions remain. Consolidation and group outsourcing do not relieve asset managers of the obligation to ensure robust local and independent assurance of compliance and risk functions.

In the coming period, new European laws and regulations and the further establishment of the European Savings and Investments Union (SIU) will have an impact on the playing field and the competitive position of the European asset management sector.

The aim of the SIU is to provide EU citizens with more investment opportunities and to improve financing opportunities for companies in the EU. An important part of the plans is the integration of the European capital markets. This also includes efficient supervision. The AFM supports further steps towards strengthening and, where necessary, centralising supervision at the European level. It is important that this leads to a more consistent application of EU legislation, more effective supervision and further integration of capital markets. For the asset management industry, this should result in lower compliance costs and an increased level playing field within the EU. This will promote fairer competition and make it easier to operate across borders.

Integrity and criminal behaviour

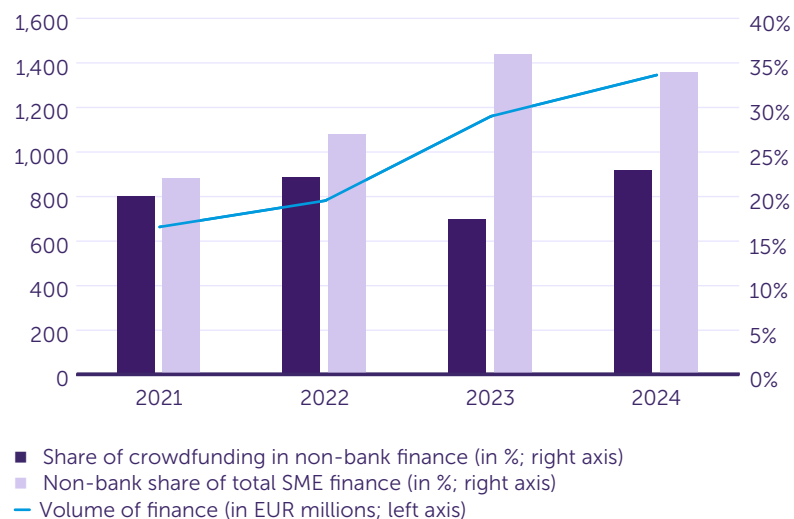
The presence of illegal crowdfunding service providers (CSPs) undermines confidence in the sector and distorts fair competition.

Illegal CSPs operate outside the licensing system of the European Crowdfunding Service Providers Regulation (ECSPR), which means that investors are insufficiently protected against deception, incomplete information or even fraudulent acts. There is also a risk that unlicensed CSPs may additionally have serious operational deficiencies, which could lead to bankruptcies or insufficient resilience to cyberattacks. This could result in investors suffering financial damage and confidence in the crowdfunding market being undermined. Although the crowdfunding market is currently relatively small,

crowdfunding is growing as a form of financing for SMEs in both absolute and relative terms (Figure 3.7). Within the EU, the Netherlands has the largest number of CSPs after France, with the Netherlands being on an equal footing with France in terms of invested capital.⁴⁵ These figures reflect the registered part of the market. Figures on the size of the illegal part of the market are still lacking, but the AFM regularly receives signals from consumers and from the sector concerning potentially illegal CSPs.

The lack of protection for investors combined with a growing market increases the risk of financial damage and loss of reputation for the industry as a whole. There is also a risk of negative media coverage, which can further undermine consumer confidence in the market. A well-functioning CSP market is essential for maintaining that confidence.

Figure 3.7 Crowdfunding is growing as a source of financing for SMEs.



Source: SME Financing Foundation

⁴⁵ https://www.esma.europa.eu/sites/default/files/2025-01/ESMA50-2085271018-4039_ESMA_Market_Report_-_Crowdfunding_in_the_EU_2024.pdf, ESMA, January 2025.

Risk Map for Asset management

The risk maps describe risks that may arise or accelerate as a result of the above trends and developments.

Risk assessment Risk magnitude

- High
- Raised
- Very high

Probability of materialisation in the next two years

- ↗ Increase
- Remain the same
- ↘ Decrease

Keywords	Specific risk	Risk drivers	Importance
Consolidation	The ongoing consolidation trend requires attention to the operational risks of acquirers. In addition, concentration risks are increasing and heterogeneity in the Dutch asset management market is under pressure. This is accompanied by the risk of a less specialised offer and a decrease in freedom of choice for investors.	- Margin pressure/scale - Laws and regulations - Complexity of business operations	↗
Valuation and illiquid markets	Open-ended funds that invest in illiquid assets (such as private markets) or funds that make extensive use of derivatives are particularly exposed to liquidity risks in the event of market stress. Insufficient market transactions for illiquid assets increase the risk of mispricing and conflicts of interest. The expected growth of this category of investments increases the likelihood of materialisation of these risks.	- Macroeconomic developments - Geopolitical developments	↗
Chain dependence	Outsourcing activities, such as portfolio management, investment administration and IT, to third parties leads to chain dependency. When many asset management parties become dependent on a limited number of third parties, this results in concentration and/or systemic risks (domino effect).	- Digitalisation - Internationalisation	↗
Digital operational resilience	Increasing use of and reliance on IT systems makes asset managers vulnerable to cyberattacks and other IT incidents. The increasing outsourcing of business processes to large service providers (such as cloud platforms) also makes the entire asset management sector vulnerable to cyber incidents at such 'nodes'. A no-IT scenario can have serious and market-disruptive effects.	Digitalisation	↗
AI in investment policy and business operations	Uncontrolled use of AI in both portfolio management and internal operational processes creates risks, such as potential biases and reduced transparency and explainability and exposure of asset managers to model risks. In extreme cases, errors in algorithms or poor management of these risks can lead to financial instability.	Digitalisation	↗
Sustainability legislation and communication	Against the backdrop of changing regulations, it is important that asset managers communicate to investors in a clear and correct way about the sustainable characteristics of a product. If sustainability information turns out to be insufficiently reliable, this can damage confidence in sustainable products.	- Preservation - Laws and regulations	→
Integrity and criminal behaviour	The presence of illegal crowdfunding service providers (CSPs) undermines confidence in the sector and puts investors at risk, since they are operating without a licence. This increases the likelihood of deception, fraud, bankruptcies or cyberattacks.	- Laws and regulations - Digitalisation	↗