News Release

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Casey Quirk and McLagan Study Shows Growing Divide Between Winners and Losers in Asset Management

NEW YORK and DARIEN, Conn., July 9, 2018 – Winning asset management firms are increasingly separating themselves from the pack, according to an annual industry study conducted by Casey Quirk, a practice of Deloitte Consulting LLP and a leading strategy consultant to the asset management market, and McLagan, a unit of Aon.

According to the study, "Investing for Growth, Performance Intelligence 2018," between 2014 and 2017, 25 percent of the asset management firms studied have found a way to invest in their businesses while increasing profits versus another 44 percent that are investing in their firms but not seeing returns, and 31 percent that are simply cutting costs and contracting. While revenue and profit growth are still highly correlated, increasing revenues is no longer a guarantee that profits will march in step.

In an environment of fee compression and pervasive passive investing, profitable growth is becoming more difficult to achieve. It was only a few years before, between 2011 and 2013, when approximately 40 percent of asset management firms were able to grow profitably.

Profitable asset managers increased median margins to 35 percent over the past three years versus their competitors at 31 percent. In addition, the best positioned asset managers are often able to charge a fee premium that their competitors cannot. For instance, firms that are able to increase margins and reinvest in their companies typically command a 19 percent fee premium versus their competitors. Managers not in this cohort all see below median fees for their products, between negative 2 percent and negative 7 percent, depending on the investment strategy.

Casey Quirk says that the asset management industry will continue to bifurcate between winning firms growing profitably and those that will lose out by only increasing revenues and not profits or by experiencing revenue contraction.

Overall, asset managers that have a lower cost structure, higher efficiency per employee, and better focus their efforts on in-demand investment strategies have experienced a 4.6 percent organic growth rate over the last three years. Those firms that are deliberately drawing down margins in order to fund reinvestment efforts have not seen any organic growth over the same timeframe. And, firms that are cutting costs without investing in their businesses saw a 2.7 percent decline in growth.

Investment management firms need to consider thoughtfully where to focus and where to invest in such areas as:

- Accelerating investments in technology
- Prioritizing investment strategies that legitimately earn a premium fee
- Modernizing distribution by centralizing sales and compensation processes
- Investing in products that show promise for future growth and minimizing exposure to stagnant, legacy products
- Spending more on marketing and brand-building
- Outsourcing noncore services, such as middle and back office functions

The study highlights that significant investments in technology can bolster many areas of the business, including the investment and distribution teams. Those firms that spent heavily on strategic technology to support their investment teams since 2014 saw a 44 percent increase in profits per employee. Additionally, asset managers that invested in technology to support their sales operation during the same time period had a 40 percent increase in productivity per salesperson.

"Tomorrow's successful asset managers must be nimble, willing to invest in strategically significant areas of their businesses, like technology, and outsource those skills that are not part of their core competencies, such as middle and back office functions," said Amanda Walters, senior manager at Casey Quirk. "Coming off a healthy year for the industry in 2017, firms must reinvest some of their income if they want to transform."

Adam Barnett, a partner at McLagan, said, "Winning asset managers will continue to focus close attention on how they compensate top executives and portfolio managers. Their incentive plans will need to provide optimal alignment across all stakeholder groups and their broader talent management systems must deliver a compelling employee value proposition."

As Casey Quirk previously reported, assets under management for publicly traded firms in the study increased 16 percent in 2017 to $16 trillion, while organic growth from net flows remained low at 3.4 percent. Operating margins for public asset management firms in the report rose to 31 percent, up from 29 percent in 2016, but these factors were largely driven by capital markets appreciation. A market downturn could significantly alter these characteristics. The addition of private firm data does not meaningfully change the outcomes.

The 2018 Performance Intelligence study included more than 95 investment management firms headquartered in North America, Europe and Asia Pacific, investing more than $35 trillion for institutions and individuals. In addition to Casey Quirk's and McLagan's own analysis, the study includes data from eVestment and Morningstar, Inc.

About Casey Quirk
Casey Quirk, a practice of Deloitte Consulting LLP, is a leading management consultancy that focuses solely on advising asset management firms. Casey Quirk was

established in 2002 and acquired by Deloitte in June 2016. The firm has advised a majority of the 50 largest asset management organizations worldwide, including eight of the top 10. Casey Quirk provides senior leadership teams with broad business strategy reviews, investment positioning and strategy consulting, market opportunity evaluations, organizational design, ownership and incentive structuring, and transaction due diligence. For more information, please visit www.caseyquirk.com.

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About McLagan
McLagan helps financial services companies make better decisions by applying market pay and performance information to their business problems. McLagan's clients include virtually every leading global financial services firm, including investment, commercial and retail banks, securities firms, investment management organizations, hedge funds, and insurance companies. For more information please visit www.mclagan.com.

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