



For Immediate Release

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Asset Manager Revenue, Profit Growth Vulnerable as Fee Pressures Mount, According to New Benchmarking Analysis

NEW YORK, July 13, 2015 – Robust capital markets powered revenue and profit margin expansion in 2014, yet the global investment management industry faces strong headwinds from growing fee pressure, according to the 2015 Performance Intelligence asset management benchmarking survey. This year's analysis surveyed 110 investment management firms headquartered in North America, Europe and Asia Pacific, investing an aggregate US\$28.2 trillion for institutions and individuals.

Global assets under management rose to an estimated US\$67 trillion in 2014, up 10.5% over the previous year and due mostly to capital markets appreciation, according to the survey. Industry revenue, however, rose only 6.3% to an estimated US\$319 billion, as aggregate average fees declined to 48 basis points, or 0.48% in 2014 from 50bps, 0.50%, in 2013, according to the analysis, the 14th annual asset management benchmarking survey.

The global survey participants largely came from the U.S. Institute and European Institute, members-only forums for CEOs and the executive teams of leading investment management firms. Casey, Quirk & Associates, a leading management consultant to investment management firms worldwide, conducted the analysis in partnership with McLagan, the leading provider of compensation consulting services and pay and performance data for the investment management industry. They surveyed privately held, publicly traded and wholly or partly owned firms with assets under management ranging from below US\$75 billion to over US\$1 trillion in assets.

While the industry is healthy, with 34% profit margins, the highest in the past five years, it is facing increasing fee stress as investors tilt to passive strategies and from distributors taking revenue share from managers. In the U.S. market, the world's largest for registered funds, the passive share rose to 26% in 2014 from 15% in 2007. Last year, passive strategies accounted for 93% of total net new flows at U.S. registered products.

"Traditional active, benchmark-oriented investment managers are increasingly challenged," said Jeffrey Levi, partner at Casey Quirk. "Winning firms will include those that can become product innovators, developing benchmark-agnostic, high-conviction new active strategies, outcome-

oriented solutions providers and/or cost-effective beta providers, and are able to penetrate and grow share in the retail marketplace.”

Net flows contributed 2.6% to the overall growth in assets under management worldwide in 2014, but it's the retail segment that's driving organic industry growth, according to the benchmarking analysis. The institutional market is stagnant, with redemptions outpacing gross sales in 2014.

“Firms focused on successful product development and recruiting talented specialists for distribution will reap the benefits of organic growth and client retention,” said Adam Barnett, head of the asset management practice at McLagan.

Four winning operating models are increasingly separating from the rest of the asset management industry, according to the benchmarking analysis. They are:

- Focused new active – those with a benchmark-agnostic investment approach; high-conviction investment styles; and product innovators
- Scale beta – current market leaders in passive strategies, and emerging smart beta providers
- Global broad capability – those with a broad array of investment strategies; strong worldwide brand recognition; and global distribution footprint
- Channel leader – those focused on specific market segments and with a strong local brand

“The growth gap is widening and results from our latest asset management benchmarking survey indicate that executives need to fine-tune their business models to stay on the winning side,” said Fred Bleakley, director of the U.S. Institute.

About U.S. and European Institutes

The U.S. Institute, founded in 2000, is an exclusive membership organization that brings together senior officials from the leading investment management firms in the United States. The U.S. Institute provides this innovative group with a unique platform to meet with peers, share ideas and stay ahead of their competition. The European Institute, formed in 1988, is an exclusive private membership that brings together senior representatives from the investment management divisions of banks, insurance companies, and leading independent firms in Europe. For more information on the U.S. and European Institutes please visit www.iimemberships.com.

About McLagan

McLagan helps financial services companies make better decisions by applying market pay and performance information to their business problems. 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.

About Casey, Quirk & Associates LLC

Casey Quirk is a management consultant that focuses solely on advising investment management firms. Casey Quirk's work with senior leadership teams includes broad business strategy reviews, investment positioning and strategy, market opportunity evaluations, organizational design,

ownership and incentive structuring, and transaction due diligence. In the past five years, Casey Quirk has advised a majority of the 50 largest investment management organizations worldwide. For more information please visit www.caseyquirk.com.

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