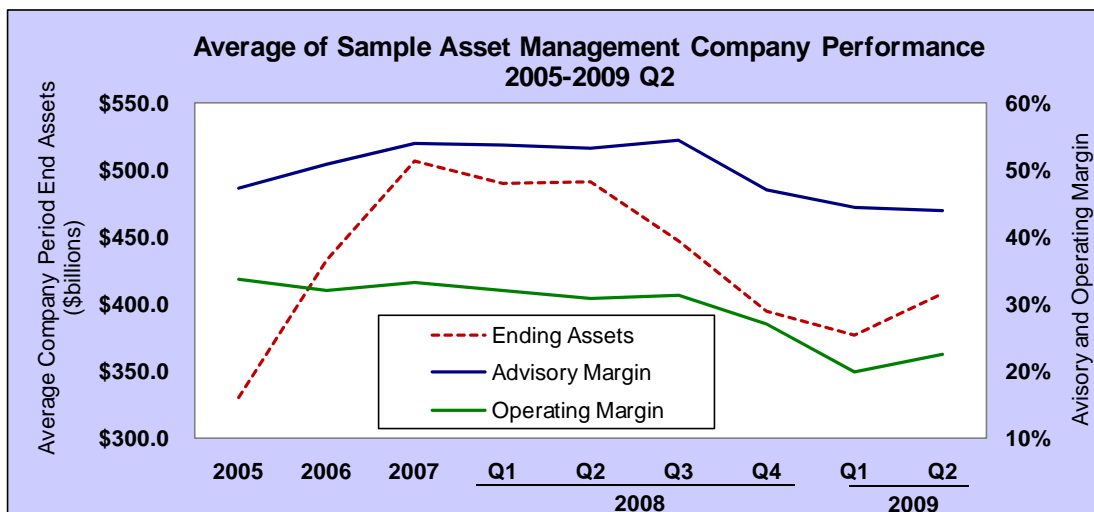


Returning Assets and Profits in the First Half of 2009

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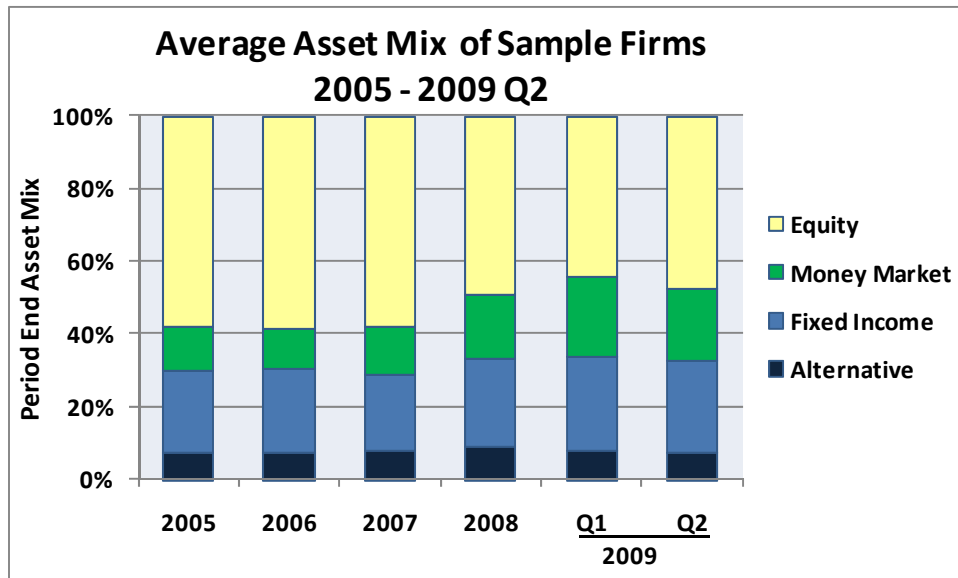
As markets rebounded in 2009 from the tumultuous decline in 2008, the 1st and 2nd quarter end assets under management of management companies generally also improved, and revenue went right along for the upswing. Advisory and operating margins also improved but not to quite the same extent.

The chart which follows depicts asset management company trends over the last five year period, with a focus on the most immediate market fluctuation by quarter. This comparison selects eighteen public firms that have had consistent and comparable operating structures during the time period.



Assets at the end of the 2nd quarter of 2009 have now returned to where they were at the start of 2006; the operating and advisory margins, while improving, are slower to recover. This is the result of many factors, both expense and revenue driven. While the assets under management are returning, the basis points, or fees charged are not equivalent because of a reduction in trailing performance fees, increases in fee waivers, and changes in asset mix. The asset mix has changed dramatically in the last year reflecting investors' flight to safety by moving investments from equity funds to money market and fixed income funds.

As the chart on the next page demonstrates, the 18 publicly quoted companies had about 60% of their assets in equity funds at the end of 2005; this number was roughly 45% at the end of the 1st quarter of 2009. The money market and fixed income funds charge (on average) a much lower management fee, which has reduced margins.



Beyond the immediate adjustments and fluctuations, there are other structural changes in the industry that have impacted expenses. These tend to be longer-term and perhaps permanent considerations. These factors include the generally reduced use of soft dollars, the decreasing number of funds and share classes offered, the complexity of the products marketed in order to stay competitive, and increased regulation which has substantially increased legal and compliance expenses.

An additional and material impact to margins is the industry shift in the distribution model. A large and increasing section of the market is transitioning away from captive sales forces and retail direct toward supermarkets, third parties and financial intermediaries that charge significant fees. Generally, the advisers' costs in this area have increased substantially over the last five years.

In 2009, increased distribution fees -- accompanied by the sudden decrease in average assets and the shift in the asset mix -- significantly reduced the operating margin impact of most asset management companies compared to 2005 and 2006. And if the 12b-1 fees are in any way reduced either by competition with the fast growing exchange traded funds or regulation by the SEC, distribution expenses will rise greatly.

The market for asset management firms seems to have recognized that the business is not quite as profitable as it was 6 or 7 years ago. At that time some investment companies sold for as high as 6% of assets; now they sell for closer to 1% or 2%. Indeed in today's market it is often cheaper to buy assets from another company than to raise them from new retail and institutional shareholders.

On the other hand, as 2009 progresses and we possibly see further market increases and stabilization, the revenue, advisory and operating margins will improve as asset levels rise.

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