

Press Release

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2009 ASSET MANAGEMENT SURVEY:

Will the goose keep laying golden eggs?

Asset managers are focusing on rebuilding profitability after a turbulent 2008 and a tough 2009. Amid tightening regulations, the “new normal” raises the bar in distribution and asset managers must adapt to a more challenging environment. Most European countries have seen positive inflows in 2009, the first time since mid-2007. However, profit margins will continue to fall as cost cutting measures are unlikely to compensate for further drops in net revenues. In Western Europe, total industry profits are likely to shrink by 25% from their 2008 level, given the significantly lower revenue run rate. In the United States, the outlook is similar: most asset managers expect that 2009 will be worse than 2008, with profitability falling by as much as half from its cyclical peak in 2007, due to lower average assets and revenues.

These are some of the key findings of McKinsey & Company’s eleventh annual *Asset Management Survey*. This year’s survey has expanded and is based on data collected from 115 European participants with total third-party assets under management (AuM) of around €5 trillion, together with participants from the US, Asia, Australia and the Middle East – in total more than 300 firms with €13 trillion AuM, representing 50% of the global industry. McKinsey’s perspective on the industry

leverages this in-depth proprietary research, as well as its extensive engagements with leading asset managers.¹

Tougher distribution

Third-party retail distribution has declined as banks and captive networks, gripped by the liquidity crisis, have reduced their shelf space and are calling for higher rebates given the difficulties of selling funds in these tough times. There is a gradual shift away from open platforms towards more “guided architecture” models. The institutional market held up better in 2008, but inflows in 2009 have slowed and there is increasing pressure to lower prices.

In the retail market, more regulation is likely to alter the picture even more. For example, regulators in the UK and India are introducing new legislation that abolishes upfront entry fees on products sold through IFAs and distributors. Asset managers could be faced with ceding a greater share of their revenues to distributors to offset the loss of entry fees. Most importantly, asset managers need to move from competing for shelf space, pushing products and negotiating rebates with distributors, to appealing directly to end customers using strong products and brands.

Need for greater resilience and expansion of scope

Asset managers must adapt to this new world by building resilience in their business portfolios, and by making bold moves to expand their scope and relevance. This is a unique window of opportunity not only to overhaul the cost base, but also to reshape the business model and take difficult decisions on the make-up of the business portfolio. Moreover, the recent boom and bust have demonstrated all too visibly that there remain staggering differences in growth and profitability across different markets, products and client segments. Asset managers must tackle their business model risk head on, and take a highly granular approach to growth opportunities. Finally, even though large deals have been scarce, many players are actively pursuing opportunities for M&A and joint ventures. Our

¹ The 2009 survey analysed financial data from the full year 2008. The detailed quantitative and qualitative data for this survey was submitted by participants in the 2nd quarter of 2009. The survey will be repeated in 2010.

experience suggests there is a sound strategic rationale and significant potential for synergies in such deals.

“Although all asset managers understand the gravity of the situation, too few have reacted with sufficient vigour and fundamentally restructured their business models,” Pierre-Ignace Bernard, a director of McKinsey & Company and leader of its European asset management practice, said. “The winners will be those firms that develop a more resilient operation while seizing the opportunities created by the upheaval.”

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