

For big asset managers, average margins are down but AUM is up: DST

By Editorial Staff Thu, Jun 1, 2017

Cumulative assets under management (AUM) for 15 large publicly-held firms grew 3.8% quarter-over-quarter, and 4.8% year-over-year to an all-time high of nearly \$11 trillion (\$10.999 trillion). BlackRock accounts for about half the total.

Three crosswinds—the “Trump Bump” in the markets, fee compression and higher expenses—left some of the largest publicly traded U.S. asset managers with mixed results in the first quarter of 2017.

Operating margins for the 15 asset managers in the DST kasina Asset Manager Composite was 32.0% in the first quarter, down 200 basis points from the previous quarter, DST kasina reported this week.

The decline followed three consecutive quarters of improvement in operating margins, The overall margin was still within the historical range of 30% to 34% for the firms, however.

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“Strong sequential growth in composite assets only led to modest sequential growth in asset management fee revenues, implying increased signs of fee pressure,” said Erach Desai, Senior Research Analyst with DST kasina, in a statement.

“With expenses already having been tightly managed for the past three quarters, the sequential rise in expenses pressured operating margins down in the first quarter.”

BlackRock, Franklin Templeton, Invesco, Legg Mason, T. Rowe Price, Affiliated Managers Group, Alliance Bernstein (AB), Federated Investors, SEI, Janus Capital Group, Waddell & Reed, Artisan Partners, Cohen & Steers, GAMCO Investors, Pzena Investment Management are the 15 firms in the survey.

In other highlights from the survey:

- Twelve of the 15 asset managers experienced a quarter-over-quarter decline in operating margin, compared to only nine of the 15 firms from the third to fourth quarter of 2016.
- BlackRock’s operating margin declined by 177 basis points. Excluding Blackrock, the composite group still declined by 200 basis points.
- Revenues from asset-generated fees in Q1 2017 were \$8.4 billion, up 0.7% from the prior quarter. BlackRock’s asset-generated fees in the first quarter improved by 0.3%.
- The S&P 500 index rose 6.1% in the quarter. Despite the anticipated 0.25% rate increase by the Federal Reserve, the bond market gained 0.8% (based on the Bloomberg Barclays U.S. Aggregate Index).
- Only two of the 15 asset management firms saw their overall AUM decline.
- 1Q2017 the sixth consecutive quarter of positive appreciation and flows for the overall Composite

group.

- 1Q2017 was the seventh consecutive quarter of net outflows for 13 of the asset management firms, excluding BlackRock and SEI. SEI doesn't report new net flows.

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