



Asset growth among top managers slows

Total assets managed by the world's largest 500 fund managers grew by around 9 per cent in 2007 to US\$ 69.4 trillion from US\$63.7 trillion, according to the Pensions & Investments/Watson Wyatt World 500 ranking. This growth rate is the lowest in five years and is down substantially from 19 per cent in 2006.



The research, conducted in conjunction with P&I, a leading US investment newspaper, also reveals that assets of the top 20 fund managers grew by only 6 per cent during 2007 compared to 23 per cent the year before and now total US\$26.0 trillion (US\$24.6 trillion in 2006). This group of assets now represents around 38 per cent of total assets.

It appears that 2007 was a year of two distinct parts; the first part saw buoyant markets which drove asset gains, the second saw most of these erased. The largest firms, normally the main beneficiaries of growth, grew at the lowest rate compared to the other firms since the survey began 10 years ago. Certain medium-sized boutique firms, particularly those running alternative assets, have added significant assets during the year, as have some passive houses.

According to the survey there are now 11 US-based investment managers in the top 20, managing 53 per cent of these assets, while the remaining nine managers are all European-based. Of the top 500, North American managers' assets increased by 11 per cent to reach almost US\$31.6 trillion, overtaking European-based managers' assets, which grew more moderately at 6 per cent to reach almost US\$30.3 trillion. Japanese managers' assets remained largely static at just over US\$4.4 trillion by year end.

While it appears that currency movements have played a role in these trends, generally those managers that have offered liability driven investment or diversity products, or both, have attracted assets. Another trend during the past five years is that quantitative and value managers would have attracted new business and assets due to their track records. However, they would not have performed particularly well in 2007.

According to the survey, passive assets have risen from US\$1.3 trillion to over US\$6.0 trillion in the past ten years at a compound annual growth rate (CAGR) of over 16 per cent, while the CAGR of the total 500 was around 11 per cent during the same period.

The growth in passive assets is significantly above aggregate growth and indicates that funds, probably those with lower governance budgets, added to

their passive core. We have seen this happen for a number of years now and would conclude that funds are now looking at alternative ways of accessing cheap beta.

There have been some significant changes¹ to the ranking during the past five years, the biggest gainers by rank being Caixa Catalunya (431 to 149), T&D (318 to 101) and Thornburg (396 to 189). The biggest falls by rank being Lend Lease (136 to 469), AIB (198 to 382) and Reams (272 to 425). Some of the main movements into the top 20 in 2007 included Goldman Sachs (22 to 17), HSBC (25 to 18) and Northern Trust (21 to 20). Those falling out of the top 20 include Credit Suisse (11 to 29), Credit Agricole (19 to 21) and Aviva (20 to 22). In addition, BGI reached the top spot for the first time with just over US\$2 trillion.

2007 seems a long time ago in light of recent developments in capital markets, but some of the trends which started then are now likely to accelerate. Chief among these is increased separation between skilled and unskilled managers, with the latter struggling – particularly in alternatives where many propositions are value-destroying after the high fees. In addition, large, well-diversified managers with a global offering and established brands are likely to continue to grow as they all



compete to succeed, notably in rapidly developing markets such as China. Furthermore, pension funds' reduced reliance on the equity risk premium will continue to drive specialisation and is likely to benefit some quality boutiques. Innovation around benchmarks is likely to go from strength to strength as demand from pension funds for cheap beta increases. This is all against a backdrop of a very challenging 2008, with many managers facing significant falls in assets.

Figure 1 | Top 20 asset managers ranked by total global assets under management – 31 December 2007

Rank	Manager	Market	Total assets (US\$ millions)
1	Barclays Global Investors	UK	2,078,699
2	State Street Global	US	1,979,000
3	Allianz Group	Germany	1,956,580
4	AXA Group	France	1,886,721
5	Fidelity Investments	US	1,862,145
6	Capital Group	US	1,549,598
7	Deutsche Bank	Germany	1,402,153
8	Vanguard Group	US	1,364,891
9	BlackRock	US	1,356,644
10	UBS	Switzerland	1,231,280
11	JPMorgan Chase	US	1,198,050
12	Bank of New York Mellon	US	1,121,138
13	Legg Mason	US	994,336
14	BNP Paribas	France	954,297
15	ING Group	Netherlands	946,601
16	Natixis	France	869,258
17	Goldman Sachs Group	US	853,264
18	HSBC Holdings	UK	844,000
19	AIG Investments	US	813,065
20	Northern Trust Global	UK	757,200

Source: Pensions & Investments/Watson Wyatt World 500 ranking

¹ Includes acquisitions and asset disposals.