

The world's **largest** asset managers

Each year since 1995, Watson Wyatt has joined forces with leading US industry magazine Pensions & Investments to survey the world's 500 largest asset managers ranked by assets under management. Our retrospective analysis shows that 2001 was a year when many trends were reversed.

Despite dreadful conditions in the major markets, total assets of the 500 largest asset managers in the world held more or less steady in 2001, decreasing by 0.2% to US\$35.2 trillion in total over the year.

Among the worst hit were managers with substantial equity holdings, reflecting the 16% drop in the MSCI World Index in 2001. In contrast, those managers with large fixed income and money market assets had healthier results (the SSB World Government Bond Index rose 2%).

Though overall asset growth does not paint too grim a picture, it represents a worsening of the dramatic slowdown that began in 2000. That year, slumping markets slowed gains in the top 500 firms' assets to just 5%. The last two years have contrasted sharply with the last few years of the 1990s bull market, when assets managed by the world's largest managers rose by 14% a year, with the top 20 managers recording even faster gains of 20% a year.

However, the assets of these largest 20 managers were flat in 2001, after adjusting for the

Allianz-Dresdner deal, which helped push the giant German insurer's assets up 54% for the year.

The market downturn hit all segments - large, medium-sized and small managers - just about equally. The result was that industry concentration at the top remained high, but for the first time since 1996 did not actually increase. At the end of 2001, the top 20 organisations ran 38% of the assets of the 500; while the 21st-50th firms held just over one fifth of the assets; the 51st-250th firms had just over one third of

"The cooling of US investors' long love affair with equities was evident in 2001."

the assets, and the smallest 250 companies ran a scant 5% of the money.

This reverses the trend of the past six years, when each year the big 'asset gatherer' managers increased their share of the market at the expense of their small and mid-sized peers. Going forward, the smaller, independent houses might even be expected to start picking up some market share, as investors seek more specialised active strategies to gain alpha.

However, many of the largest firms still managed to grow their assets under management during 2001, an impressive feat given the treacherous environment. There were three key drivers to growth -

acquisitions, performance, and new business growth (see chart on page 7).

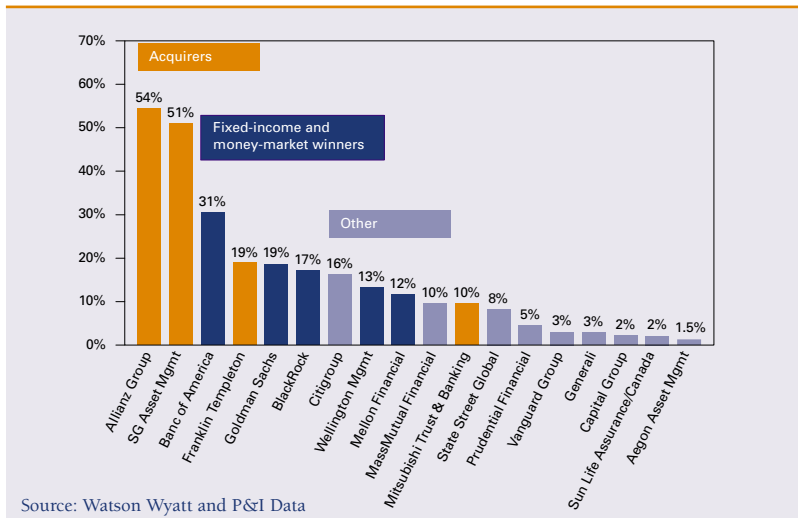
Acquisitions still managed to help boost some leading managers' assets under management to new highs, despite a big drop in M&A activity overall (outside the US, corporate activity cases fell from 60 to less than 40). The biggest European deals to come through in 2001 were the Allianz-Dresdner merger, and SG Asset Management's acquisition of US West Coast manager TCW, which swelled SG's assets by 51%.

A preliminary analysis of the numbers seems to indicate that a significant proportion of acquisitive firms recorded slower organic growth over the past six years than firms that did not set out on the acquisition trail. The latter group includes Capital Group, State Street, Barclays Global Investors and Fidelity.

The end of the affair

The cooling of US investors' long love affair with equities was evident in 2001, as firms with large fixed-income and money-market funds saw their assets grow, some quite substantially. Though institutional investors for the most part retain their belief in equities, retail investors have proved more fickle. The winners included Goldman Sachs Group and

Growth in global assets under management 2000 - 2001
The 20 fastest growing firms among the top 50



BlackRock Inc, with asset growth of 18% and 17% respectively, partly as a result of new cash flows, and partly because of the better performance of cash and bonds.

US managers were the only regional group that saw their assets rise year on year. US-based managers' share of total assets rose from 40.9% to 42.4% over the year.

Meanwhile, UK-based managers' share of the total fell from 9.2% to 8.5%, most likely as a result of their greater equity focus. Swiss managers also lost market share, while German and French firms held their ground largely because of the Allianz and SG deals. Japan's share of total assets has almost halved to 11.4% since 1996.

Against the odds, some big equity managers did succeed in building their asset bases. These were chiefly managers that are known for their fundamental value orientation. Among this group, Capital Group stands out with a 2% increase in assets.

In contrast, it was no surprise that as the long bull market faded into memory, growth equity

managers continued to suffer. Among these, Stilwell Financial, the Denver-based parent of growth and hi-tech manager Janus, suffered a 25% fall in its assets.

Other firms managed to attract significant new business, despite the difficult conditions. Citigroup was a main beneficiary, with new inflows on both the institutional and retail sides helping to push assets up by 16%.

Despite the best efforts of its critics, passive management is far from dead, with three of the 'big four' indexers recording asset gains. These were Legal & General, Vanguard Group, which has large retail funds, and State Street. State Street's acquisition of Gartmore's indexing business accounted for some of the gains, but the firm is also doing well on the back of performance and aggressive marketing and pricing. In contrast, Barclays Global Investors saw assets shrink by 4%.

Ranked by total global assets under management as of 31 December 2001

Rank	Organisation	Country	Total assets (US\$ million)
1	UBS	Switzerland	1,476,629
2	Allianz Group	Germany	1,038,000
3	Fidelity Investments	US	1,007,898
4	Credit Suisse Group	Switzerland	850,800
5	AXA Group	France	806,078
6	State Street Global	US	785,421
7	Barclays Global Investors	UK	768,694
8	Kampo	Japan	709,031
9	Vanguard Group	US	605,556
10	JP Morgan Fleming	US	604,660
11	Mellon Financial	US	592,000
12	Capital Group	US	573,755
13	Deutsche Asset Mgmt	Germany	548,945
14	Merrill Lynch	US	528,701
15	Citigroup	US	502,371
16	ING Group	Netherlands	455,000
17	Zurich Financial Services	Switzerland	416,000
18	Morgan Stanley Inv Mgmt	US	415,984
19	AMVESCAP	US/UK	397,946
20	Prudential Financial	US	387,959

For a complete list of the 500 largest asset managers, please contact Martin Wahlgren on +44 (0) 1737 241144 or at martin.wahlgren@eu.watsonwyatt.com

Source: Watson Wyatt and P&I Data