SS&C Finds Asset Managers' AUM Rebounds, but Outflows Accelerate and Operating Margins Decline

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Analysis indicates revenue growth was more than offset by an uptick in expenses during Q3 2018

WINDSOR, Conn., Dec. 12, 2018 /PRNewswire/ -- SS&C Technologies Holdings, Inc. (Nasdaq: SSNC), a global provider of financial services software and software-enabled services, today released the results of its Asset Manager Composite for the third quarter of 2018, which analyzes 181 publicly-traded firms. The results found that in Q3 2018, cumulative assets under management (AUM) increased strongly to $12.961 trillion compared to $12.658 trillion in Q2 2018 (up 2.4%), with 15 of the 18 asset management firms demonstrating sequential growth.

"Even as sequential revenue growth resumed for the public asset management firms in Q3 (after declines in the
first half of 2018), we saw operating expenses also move higher (after tight expense management for several
quarters). Consequently, operating margins for the Composite group declined slightly to 32.7% in Q3, compared to
33.0% in Q2," said Matthew Fronczke, Director, Strategic Business Consulting, SS&C Research, Analytics and
Consulting. "Ultimately it was solid market performance in Q3 that was able to more than compensate for an
acceleration in net outflows for the Composite group, resulting in a solid recovery in cumulative AUM. The big
unknown is how capital markets finish the fourth quarter, which have been turbulent so far."

Strong macroeconomic fundamentals fueled market performance

U.S. equity markets were led by the S&P 500 notching its biggest quarterly advance in nearly five years. The S&P 500's total return of 7.7% in Q3 was largely attributable to a surge in quarterly profits in the second quarter –
accelerating to 25% year-over-year growth. According to the Bureau of Economic Analysis, the U.S. GDP grew at an
annual rate of 3.5% in the third quarter (initial read), after growing by 4.2% in the second quarter. Global equity
markets recovered after a disappointing Q2 and the MSCI EAFE Index delivered returns of 1.4% in Q3.

In September the Federal Reserve raised interest rates by 0.25% - the third such increase in 2018 – and an event
that was anticipated by market watchers. With rising rates, it was not surprising to see the U.S. and global fixed
income markets underperform relative to equity markets. The Bloomberg Barclays U.S. Aggregate Index was flat in
Q3 (0.0%), while the Global Aggregate Index declined by 1.7%. On balance, the strong equity markets resulted in
solid overall returns for most portfolios.

Key performance metrics for Q3 2018

Performance metrics for operations, AUM and asset flows for the Composite companies are summarized below:

- Operating margins for the Composite group declined by 23 basis points to 32.7% in Q3, vs. 33.0% in Q2.
  Operating margins for the Composite have been hovering around 33% for most of 2018, compared to the
  recent high of 34.0% in Q4 2017, and the all-time high of 35.0% in Q2 2015.
- Nine of the 18 firms in the Composite group experienced improving operating margins on a sequential basis.
  The remaining nine firms saw their operating margins decline.
- In Q3, higher AUM for the Composite group drove higher asset-generated fee revenues (+0.3% sequentially),
  and higher overall revenues (+0.5% sequentially). This was a welcome turnaround after sequential declines
  during the first half of 2018.
- Overall operating expenses for the asset management industry rose by 0.7% in Q3, after two consecutive
  quarters of tight expense management. Changes (up or down) for compensation or distribution expenses
  varied on a firm-by-firm basis.
- The combined impact of 0.5% growth in revenues was slightly offset by a 0.7% increase in expenses,
moderating operating margins for the Composite group as a whole by 30 basis points.

- The sequential growth in AUM for the Composite group was broad-based: 15 of the firms experienced AUM growth, while only three had essentially modest declines.
- Net flows were the proverbial fly in the ointment for the asset management industry during the third quarter. After declining for the Composite group in Q2 2018 for the first time since Q1 2016, net flows accelerated to $32.4 billion in Q3. The silver lining is that only 12 of the firms in our Composite group had net outflows in Q3, compared with 14 firms with outflows in Q2.
- Strong market performance across all 17 firms (that report flows and market performance) was able to more than offset the net outflows.

The accompanying chart (operating margin vs. net margin trend lines) shows that despite strong capital market performance over the past two years, operating margins have slightly declined for public asset management firms. The upward trajectory for net margins – especially in 2018 – is largely a consequence of the corporate tax cut signed into law in late 2017.

About the Study

The SS&C Research, Analytics, and Consulting Group (formerly DST) helps organizations manage data, gain insight and ignite change. Since Q1 2009, the group has performed consolidated financial statement analysis using the public quarterly earnings of the following composite of 15 asset management firms: Analysis each quarter includes an adjustment to operating margins to account for one-time charges. It does not, however, include adjustments for stock-based compensation and goodwill amortization as there are variances in reporting by individual asset management firms. Therefore, our operating margins at the individual firm level may differ materially from the “fully adjusted, non-GAAP” operating margins reported by company management. The adoption of Topic 606 – a new revenue recognition accounting principle – starting in Q1 2018 – has impacted at least ten of the firms comprising the Composite: thus, the income statement impact (and therefore, for operating margin analysis) can only be reflected back to Q1 2017 on a comparable basis.

Firms included in the SS&C Research, Analytics and Consulting Asset Manager Composite [firms in bold added in Q2 2018]: Affiliated Managers Group (AMG), Alliance Bernstein (AB), Artisan Partners (APAM), BlackRock (BLK), Cohen & Steers (CNS), Diamond Hill Investment Group (DHIL), Federated Investors (FII), Franklin Templeton (BEN), GAMCO (GBL), Invesco (IVZ), Janus Henderson Group (JHG), Legg Mason (LM), Manning & Napier (MN), Pzena Investment Management (PZN), SEI (SEIC), T. Rowe Price (TROW), Victory Capital (VCTR) and Waddell & Reed (WDR).

About SS&C Technologies
SS&C is a global provider of investment and financial software-enabled services and software for the global financial services and healthcare industries. Founded in 1986, SS&C is headquartered in Windsor, Connecticut and has offices around the world. Some 13,000 financial services and healthcare organizations, from the world’s largest institutions to local firms, manage and account for their investments using SS&C’s products and services.

Additional information about SS&C (Nasdaq:SSNC) is available at [www.ssctech.com](http://www.ssctech.com).

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1 Starting with Q2 2018, three additional firms have been included in the Composite to include recently public firms and to be more comprehensive in our analysis. The additions are identified with the full list at the end of this press release. Historical Composite references have been updated to reflect these additions.

2 Operating margin (as further expounded in About the Study) is profitability after deducting operating expenses from revenues. Net margin is net income profitability, after taxes and non-operating items.

3 Three asset management firms financials were retroactively added in during Q2 2018. For these firms, the Composite data has been adjusted back to Q1 2017.
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