



NEWS RELEASE

## SS&C Finds Asset Managers' Operating Margins Remained Above 30%, Despite AUM Decline Experienced in Q4 2018

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WINDSOR, Conn., March 18, 2019 /PRNewswire/ -- **SS&C Technologies Holdings, Inc.** (Nasdaq: SSNC), today released the results of its Asset Manager Composite for the fourth quarter of 2018, which analyzes 181 publicly-traded firms. The results found that in Q4 2018, cumulative assets under management (AUM) declined by 8.0% to \$11.928 trillion compared to \$12.961 trillion in Q3 2018.

"A decline in assets under management is not surprising given market under-performance," said Matthew Fronczke, Director, Strategic Business Consulting, SS&C Research, Analytics, and Consulting. "Consequently, operating margins for the Composite group were impacted – coming in at 30.1% in Q4 compared to 32.7% in Q3 2018. The silver lining is that most industries would love to sustain 30% operating margin levels after a market setback; and, the equity markets have rebounded strongly so far into Q1 2019."

### Slowing macroeconomic fundamentals fueled market jitters

The S&P 500 Index declined by 13.5% during Q4, compared to a 4.4% decline for all of 2018. Global equity markets were also down with the MSCI EAFE Index declining by 12.5% during Q4, compared to a 13.4% decline for all of 2018.

This February, the Bureau of Economic Analysis (BEA) released their first read of Q4 2018 GDP reporting a 2.6% annual growth rate compared to a 3.5% annual growth rate in Q3 2018. This reading was ahead of market expectations of 1.8%. Overall, 2019 economic growth expectations for the U.S. are moderate relative to 2018 with mixed expectations for the capital markets.

In December, the Federal Reserve raised interest rates by 0.25% - the fourth increase in 2018. The Bloomberg Barclays U.S. Aggregate Index was up 1.6% in Q4, while the Global Aggregate Index returned 0.9%. In the blended picture, a decline in equity markets overwhelmed the fixed income returns for most portfolios.

## Key performance metrics for Q4 2018

- Operating margins for the Composite group dropped by 253 basis points to 30.1% in Q4, vs. 32.7% in Q3. This level represents the lowest operating margin for the Composite since Q1 2016.
- Seven of the 18 firms in the Composite group experienced improving operating margins on a sequential basis. The remaining 11 firms saw their operating margins decline.
- Declining AUM for the Composite group in Q4 drove lower asset-generated fee revenues (-5.8% sequentially), and similarly lower overall revenues (-5.6% sequentially). Overall revenues of \$11.58 billion nearly matched the level achieved in Q2 2017. All 18 firms in the Composite group experienced sequentially declining revenues in Q4.
- Operating expenses for the asset management industry declined by 2.0% in Q4 compared with Q3, largely through a combination of lower compensation and/or distribution expenses.
- The combined impact of a 5.6% decline in revenues could not be offset by a 2.0% decline in expenses, driving down operating margins for the Composite group as a whole by 253 basis points.
- The AUM decline for the Composite group was broad-based: 17 of the firms experienced AUM declines, while only one firm saw AUM increase based on a high exposure (nearly 60%) to money market assets.
- Although the bulk of the equity market correction occurred towards the second half of the fourth quarter, net flows were impacted. Q4 net outflows of \$26.5 billion moderated from the \$32.4 billion level in Q3. However, this was the third consecutive quarter of negative net flows for the Composite group. 13 of the firms in the Composite group had net outflows in Q4, compared with 12 firms with outflows in Q3.
- All 17 firms (that report flows and market performance) experienced declines in market performance during Q4. 97.5% of the sequential decline in AUM from Q3 to Q4 can be attributed to market performance (with net flows attributing 2.5%).

The accompanying chart (operating margin vs. net margin trend lines) shows that both operating margins and net margins were impacted by significantly lower revenues in Q4 2018. The sequential decline in net margins in Q4 2018, was sharper due to higher non-operating expenses for most firms. On a year-over-year basis, operating margins dropped by 359 basis points while net margins dropped by 448 basis points – a somewhat more consistent trend.

## Operating margin vs. net margin<sup>2</sup>

Operating Margin vs. Net Margin



Note: Reported operating margins do not conform to adoption of Topic 606, prior to Q1 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<sup>3</sup>. 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 18,000 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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<sup>1</sup>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.

<sup>2</sup>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.

<sup>3</sup>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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