

Trends Amid Turmoil in the Asset and Wealth Management Industry

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Best thinking from New York's favorite
philosophizer, Yogi Berra—

Yogi's take on money management:
The future ain't what it used to be...

Yogi's take on expected single digit returns
for 2010:
The game isn't over until it's over...

Trends Amid Turmoil in the Asset and Wealth Management Industry	
	<h2>State of the Industry</h2> <p><i>Who watches this anymore? My mother...typical retail investors</i></p> <ul style="list-style-type: none"> • S&P and Dow record strong gains in 2009 at 26.5% and 22.7%, respectively; emerging markets and Latin America dominated the charts • Investor sentiment is encouraging—equity flows gaining momentum, despite flat return expectations • ETFs are the new “new thing” • SRI, ESG, green tech, clean tech, smart grid, EVs, rails are back (no, seriously...) • Substantial families suggesting “boring is back.” But how long will 60/40 appeal? • Compliance and regulatory elements becoming more onerous and costly
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	<h2>State of the Industry (continued)</h2> <ul style="list-style-type: none"> • Disposition activity beginning to slow; may or may not change with proposed bank regulation • Acquisition activity is picking up with a vengeance • Greatest hiring opportunity in recent history will soon equate to a sale at Barney’s...picked over • Rejuvenation of the entrepreneurial spirit—liftouts, breakaways, mergers of equals • Priced correctly, broader family office services cementing relationships and providing a natural hedge on revenues • Indies well positioned to take advantage of market disruption
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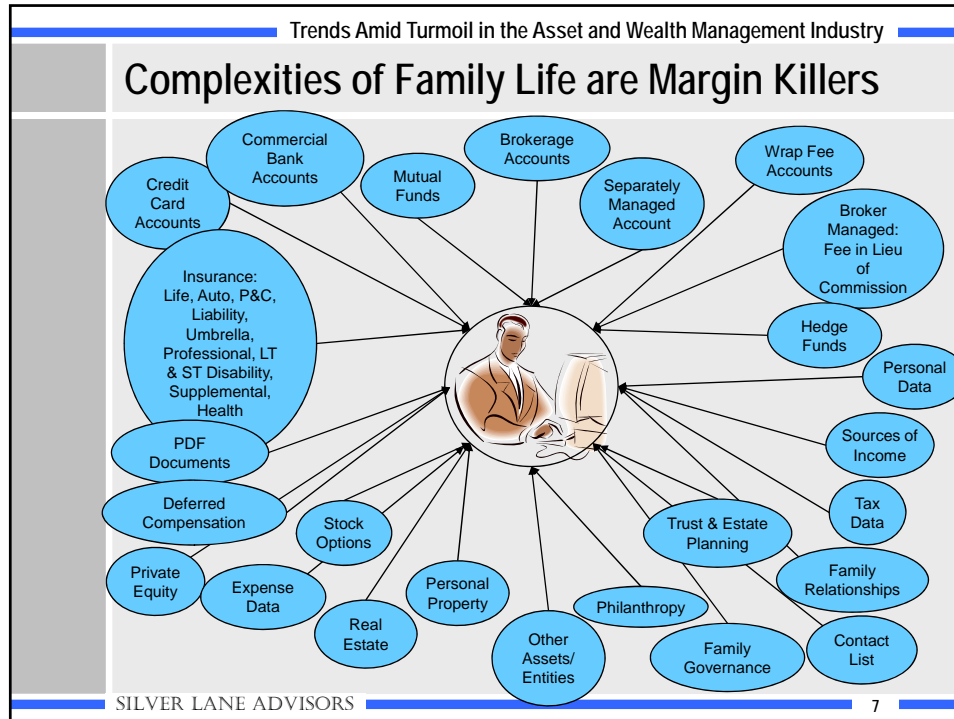
Fee Compression in 2009

- Supply vs. demand
- Hedge funds – peaked at 2/20 or more; now more flexible on performance fee threshold; lower management fee; fee rebates
- HFOFs – some migrating toward consultant model; fees on alpha also a driver
- MFOs and wealth advisors – felt serious pressure with clients on fees; discussion began with cash. Model for non-AUM pricing a requisite in this market
- Traditional asset managers – fee pressure dependant on asset class and distribution streams

Margin Analysis: Is Profitability on the Mend?

- Institutional models most scalable and volatile
- Industry forced into cost-cutting for margin preservation
- Correction requires a retooling of many business models, notably MFOs and HFoFs

Firm Type	Typical Markets	Tech Bubble Recession	Global Meltdown
1. Hedge Funds	50 – 70%	60 – 90%	Neg. – 40%
2. HFoFs	25 – 60%	35 – 70%	Neg. – 35%
3. Traditional Institutional	30 – 70%	Neg. – 45%	Neg. – 40%
4. Investment Counsel	25 – 45%	15 – 35%	Neg. – 20%
5. Financial Planning / Asset Allocation	20 – 35%	15 – 25%	Neg. – 15%
6. Multi Family Office	10 – 30%	Neg. – 15%	Neg. – 15%



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Are You a Not-For-Profit?

- NO...
- Profitability matters because it:
 - ✓ Ensures the stability and continuity of the business—clients and employees want to be part of a winning team
 - ✓ Provides for reinvestment capital (technology, people, infrastructure)
 - ✓ Provides required thresholds for financings (LOC, debt to fund retiring partner, expansion capital)
 - ✓ Delivers a return to stakeholders
 - ✓ Major driver of franchise value

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Staying Firmly in the “For Profit” Business

- Be clear on your core offering (money, wealth, expense, lifestyle management)
- Leverage a team structure and technology; institutionalize processes
- Pay market rates to keep top talent; make sure the team is *sitting in the right seat on the bus*
- Supposed “money in motion” beginning to move; critical to know how to tell a good client from a bad client
- Let clients know your worth and stick on pricing
- Most opportunistic market for new business development with the right message

Brand Recognition: The Secret Sauce

- What does it take to become a market leader?
 - ✓ Fast food
 - ✓ Hot beverage
 - ✓ Personal audio players
 - ✓ Desktop computers
 - ✓ Automotive

...Wealth management?

...Asset management?

Trend Setting Deals

- Invesco acquires Morgan Stanley retail unit (including Van Kampen)—\$1.5 billion in deal value
- BlackRock merges with BGI (creating a \$3.2 trillion manager)
- Citi contributes Smith Barney to Morgan Stanley Private Wealth
- Aberdeen's purchase of Credit Suisse fund unit—reverse merger into Britain's largest asset manager
- Macquarie materially enters US with Delaware
- Neuberger MBO—largely seller financed
- Convergent Wealth picks up \$8 billion Smith Barney teams

Key Takeaways

- Financial system is still being redefined (e.g., regulatory landscape) and it creates opportunity (and heartburn)
- There has never been a bigger divergence between winners and losers—this time, the rising tide isn't lifting all boats
- Investors are eager to put more money back into this market (top quartile vs. bottom quartile players)
- Independent model is very relevant; trust and transparency has never been more important
- The next generation of market leaders is unknown—it's a jump ball

We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.

—Warren Buffett

Winners will extend their lead proactively, not reactively. What's your game plan for success?

—E.B. Nesvold