

US Asset Managers

Asset managers provide investment management products to retail and institutional investors.

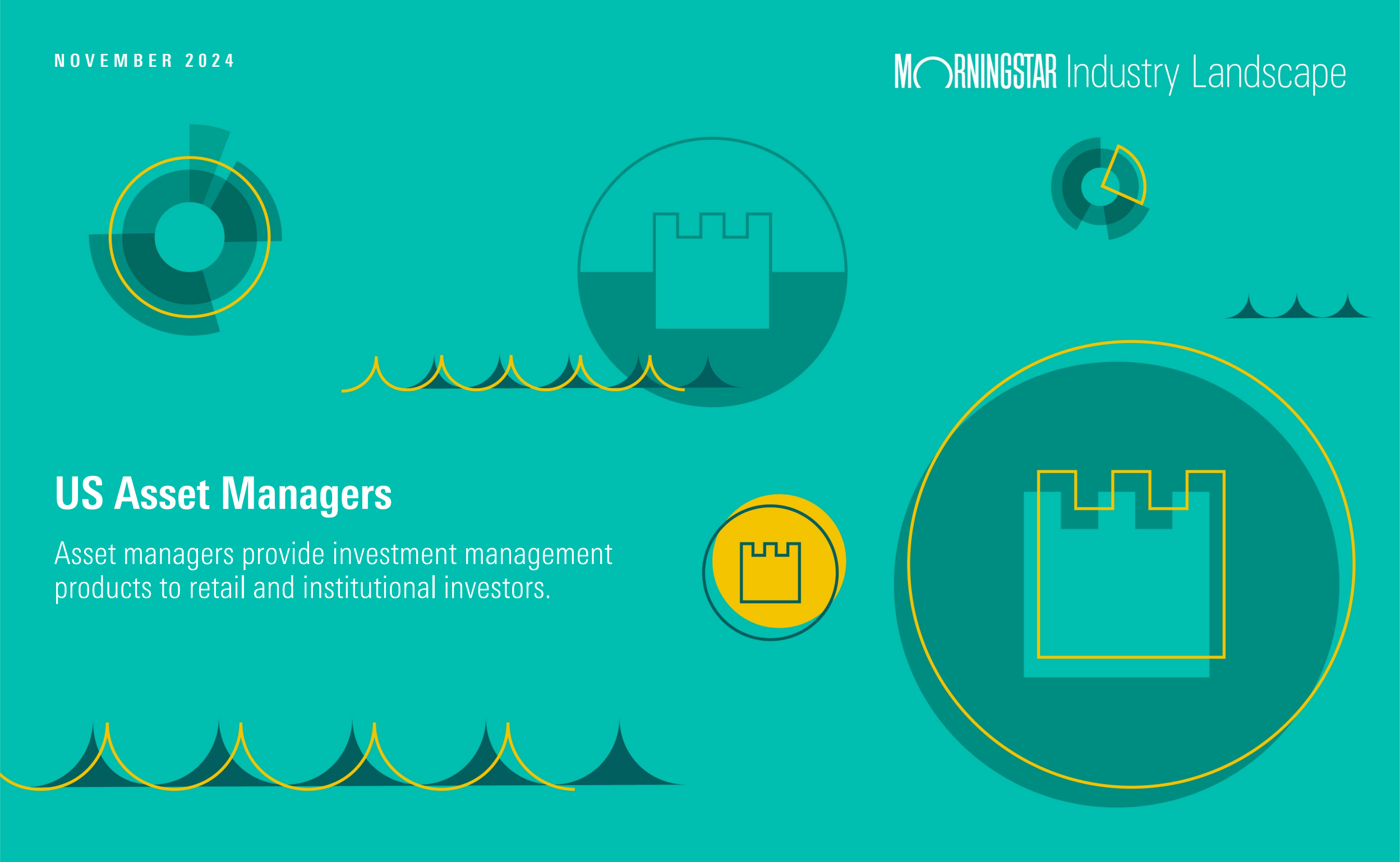


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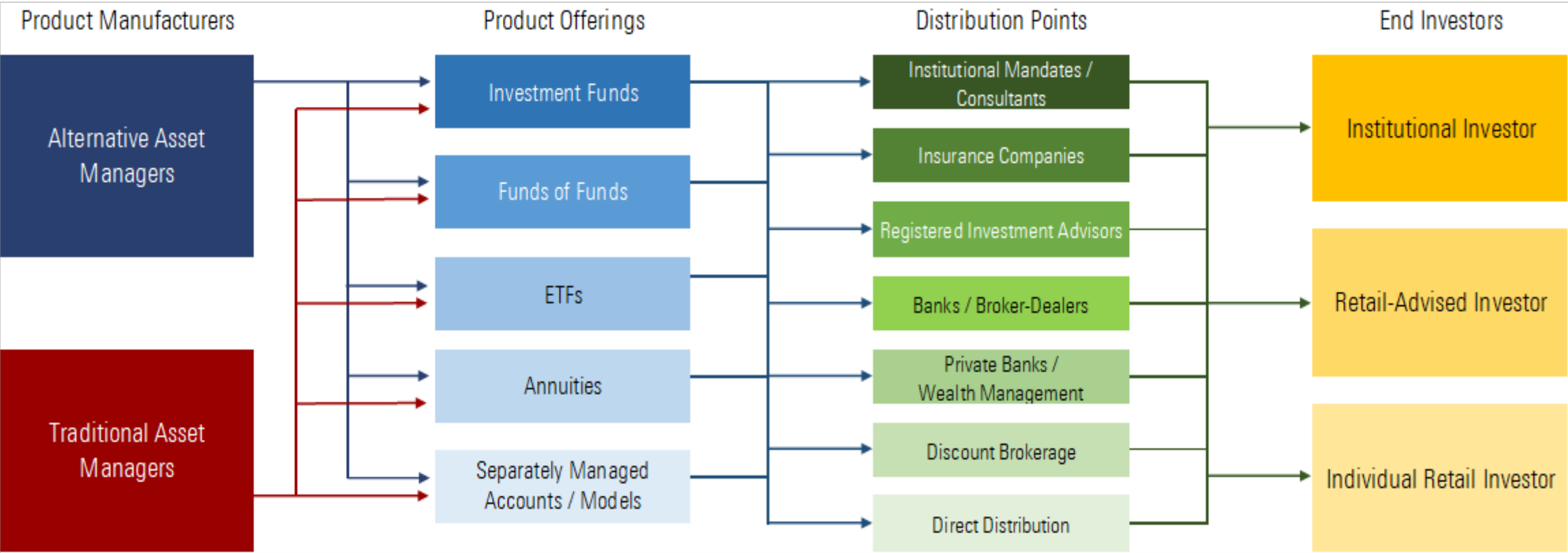
Executive Summary

The traditional and alternative-asset managers provide investment management products and services to retail and institutional investors.

Industry Map: US Asset Managers

The asset-management industry provides investment management products and services to retail and institutional investors. The industry comprises both traditional asset managers (focused primarily on more-liquid equity and fixed-income offerings) and alternative-asset managers (providing less-liquid private equity and private debt products). Over the past two decades, industry fee pressures and consolidation of intermediaries have shifted the balance of power further away from the fund manufacturers to the distributors and end users.

US Asset Manager Supply Chain

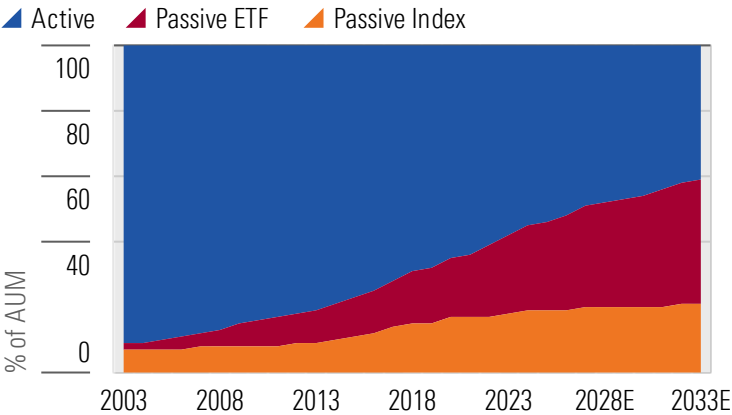


Sources: Company reports, Morningstar Direct, PitchBook and Morningstar equity research data and estimates.

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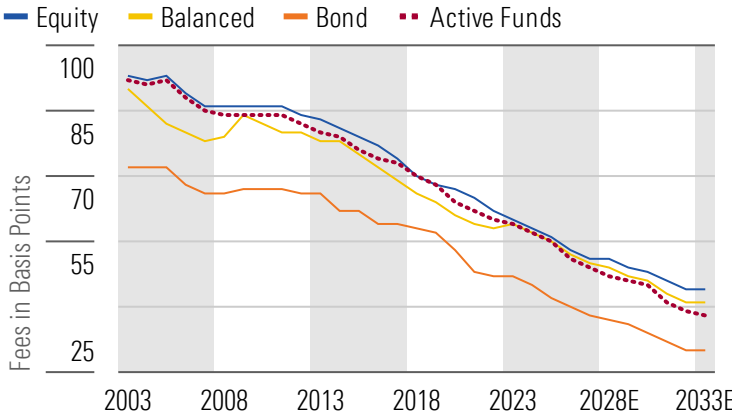
Key Industry Themes

Passive Continues to Take Share



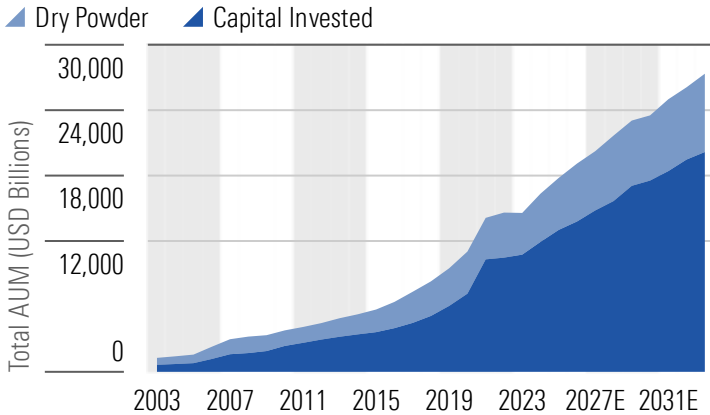
On the traditional side of the asset-management business, low-cost, passively managed products have taken share from actively managed funds over much of the past two decades. An ongoing shift to fee-based accounts over commission-based structures in the retail-advised channel, and institutional investors turning more and more to index-based funds (including ETFs) to gain market exposure, while pursuing alpha with other products (like private equity and private debt), has increased the demand for index funds and ETFs in the marketplace.

Active Fund Fees Continue to Be Pressured



Asset-weighted average fund fees for actively managed funds have been falling for more than two decades, with the average fee rate for all active funds expected to drop below 60 basis points this year. Meanwhile, passive fund fees have declined to around 10 basis points as passive funds continue to scale up. Active fees have been pressured by the growth of the passive market, as well as pressure from distributors looking for low-cost higher-performing funds for their platforms, both of which we expect to continue as we move forward.

Alternatives Continue to Grow



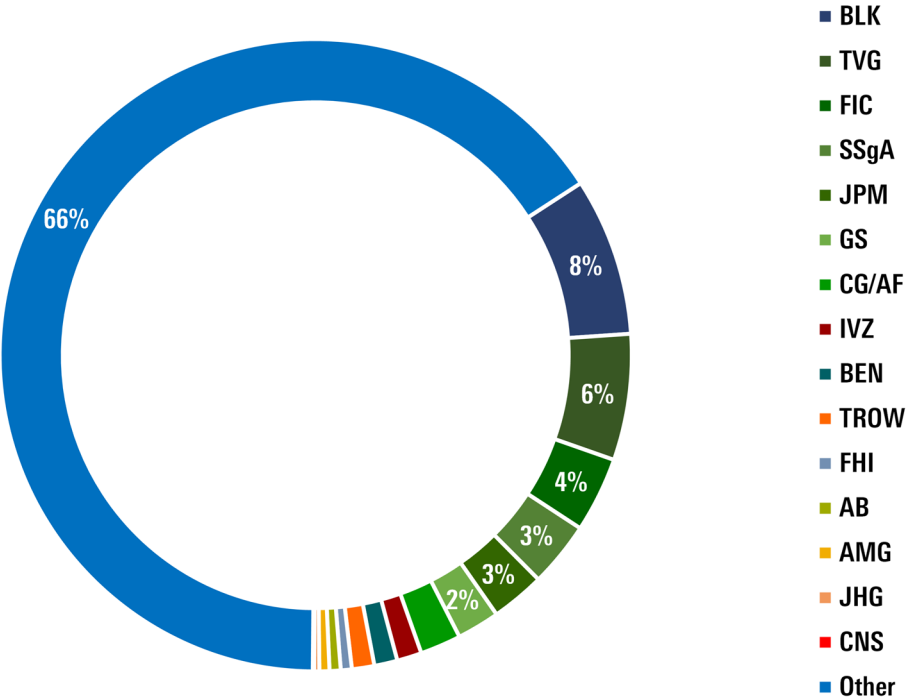
While traditional active managers struggle to find growth, alternative-asset managers continue to benefit from a demand tailwind that has seen total AUM dedicated to the space rise from \$1.3 trillion (including \$640 billion in dry powder) at the end of 2003 to an expected \$14.6 trillion (with \$3.8 trillion in dry powder) at the end of 2024. With demand for alternative assets likely to diminish some in the coming decade organic AUM growth will slow, but we still see the industry potentially sitting on \$27.3 trillion (with \$7.2 trillion in dry powder) at the end of 2033.

Market Share and Product Diversification: Traditional Asset Managers

By our estimates, asset managers had \$140 trillion in AUM globally at the end of September 2024, with BlackRock, Vanguard, Fidelity, State Street Global Advisors, and J.P. Morgan Asset Management being the five largest providers, with \$35 trillion in managed assets (accounting for 24% of overall AUM). While BlackRock, with \$11.5 trillion in AUM, outstrips the other publicly traded asset managers we cover, Invesco, Franklin Resources, and T. Rowe Price have positioned themselves as solid second-tier firms with more than \$1.5 trillion in AUM.

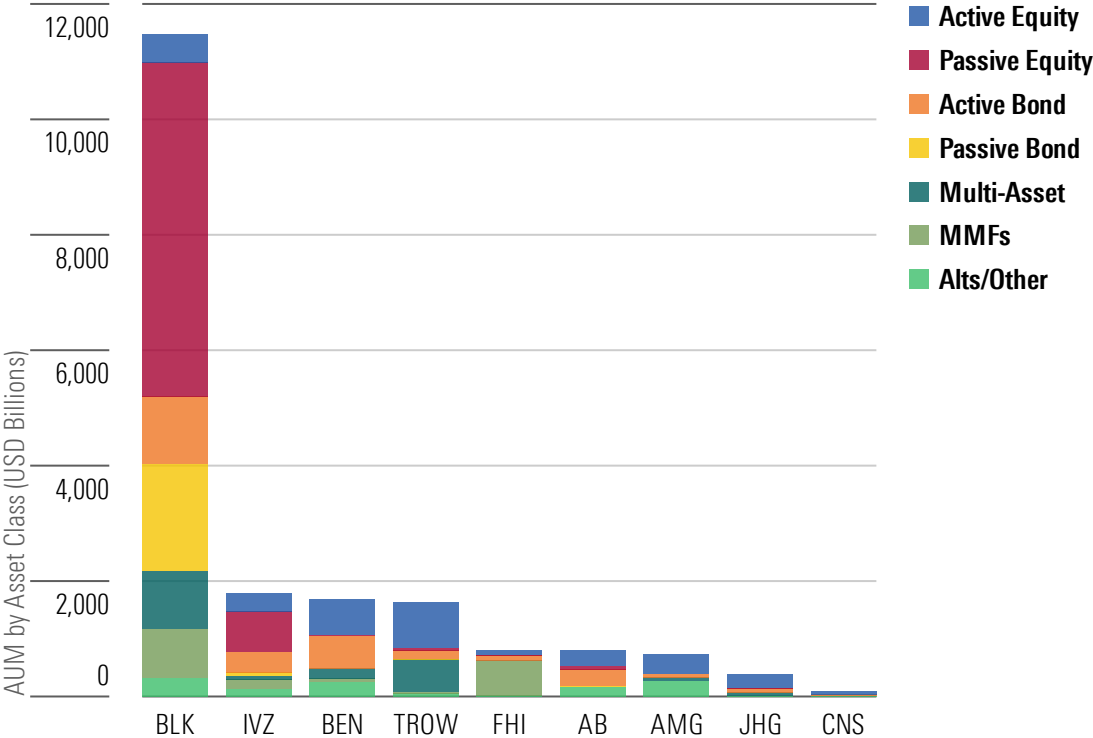
Market Share of Traditional Asset Manager Coverage and Major Players—Q3 2024

The traditional asset-management industry remains highly fragmented globally.



Asset-Class Dispersion for Traditional Asset-Manager Coverage—Q3 2024

BlackRock remains the largest provider of passive products in our coverage.



Sources: Company reports, Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

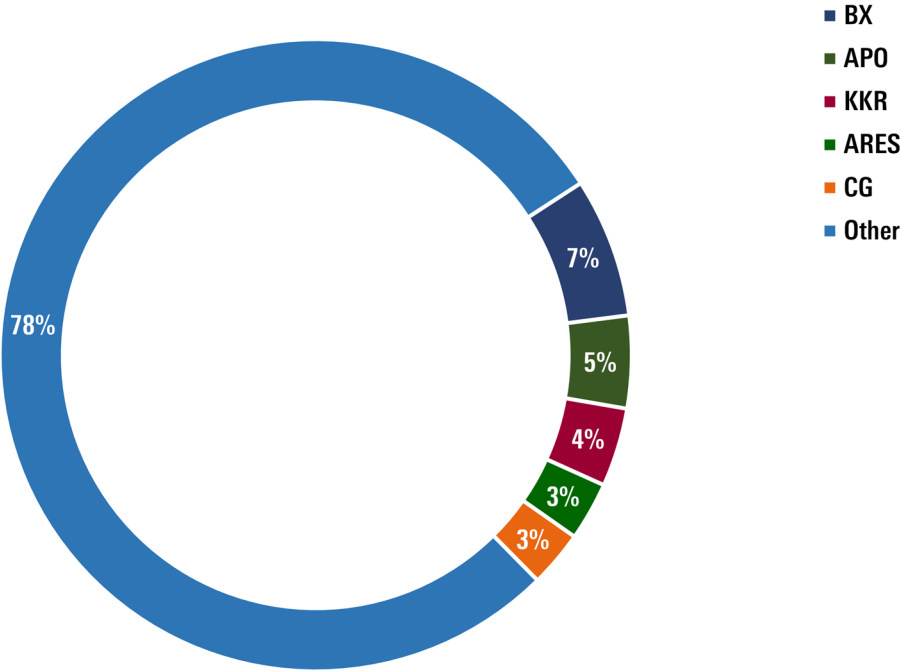
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Market Share and Product Diversification: Alternative-Asset Managers

The alternative-asset managers are a subset of the overall asset-management business, with an estimated \$15.5 trillion in AUM at the end of September 2024 and include a mixture of dedicated managers of private equity and private debt funds, as well as more traditional asset managers with alternative product offerings. While the top five providers held \$3.4 trillion in AUM (accounting for 22% of overall private market AUM), Blackstone continues to outstrip its peers, with an average of \$1.1 trillion in total AUM the past several quarters.

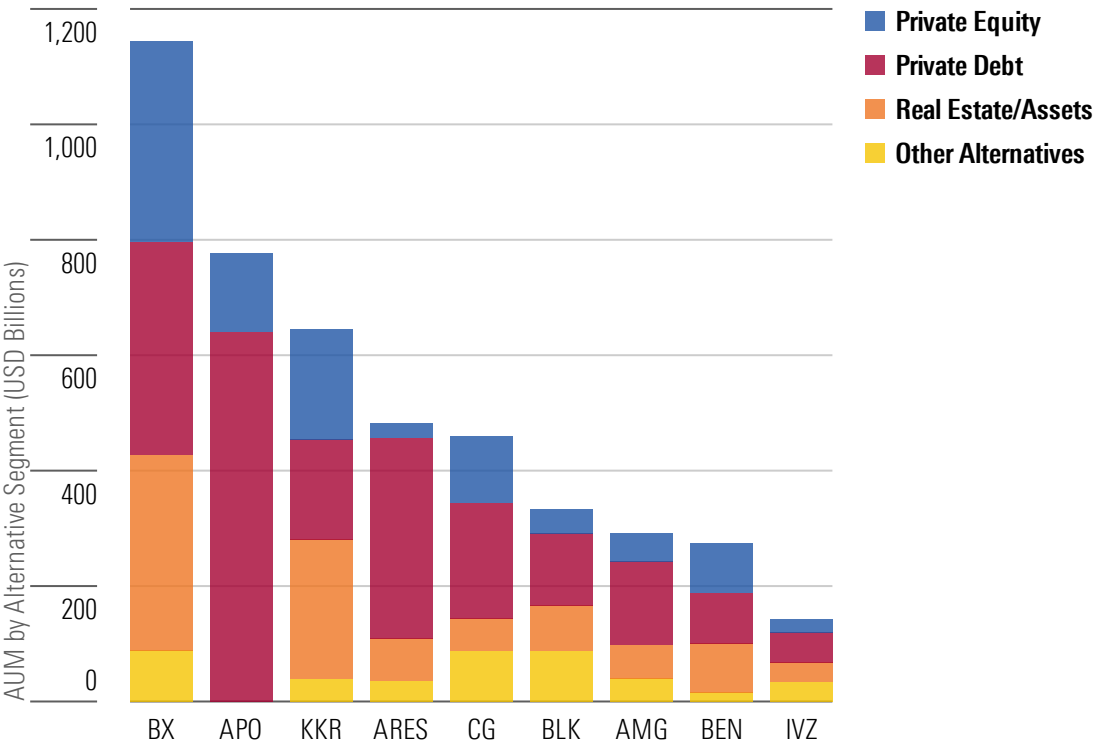
Market Share of Alternative-Asset Manager Coverage and Major Players—Q3 2024

The alternative asset management industry is also somewhat fragmented globally.



Alternative Segment Dispersion for Alternative-Asset Manager Coverage—Q3 2024

Blackstone remains the largest provider of alternative assets in our coverage.



Sources: Company reports, Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

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Industry Value Drivers

Simplified Financial Statement: BlackRock 2023 Example

Pro Forma Income Statement (USD Millions)

Revenue	1	17,859	
Management Fees		14,399	81%
Average AUM		\$9.221 Trillion	
Management Fee Rate		0.156%	
Performance Fees		554	3%
Distribution / Service Fees		1,262	4 7%
Other Revenue		1,644	9%
Cost of Goods Sold		—	-%
Gross Profit	2	17,859	
Compensation & Benefits		5,779	3 32%
Selling, General & Administrative Expenses		3,430	19%
Distribution / Service Costs		2,051	4 11%
Depreciation & Amortization	5	263	1%
Restructuring / Impairment / Other Charges		61	0%
Operating Income		6,275	35%
Interest Expense		292	
Interest & Other Income		1172	
Pretax Income		7,155	40%
Income Tax Expense		1,479	21%
Other Charges / Deductions		-174	
Net Income		5,502	
Adjusted Economic EBI		5,164	
Adjusted ROIC (including Goodwill)		16.4%	

Key Income Statement Metrics

- 1) Revenue: Asset-manager revenue is derived primarily from management fees that are earned on average levels of assets under management, or AUM, with performance fees, distribution/service fees, and other revenue making up the remainder of the top line.
- 2) Expenses: There is no traditional cost of goods sold for asset managers. The bulk of their expenses come from employee compensation and benefits, SG&A expenses, and distribution/service costs.
- 3) Compensation is the single largest expense for asset managers, composed of base pay and performance-based compensation, with alternative-asset managers relying more on the latter to compensate their employees than the traditional asset managers.
- 4) Distribution/service fees and expenses represent fees collected from investors and then passed on to distributors and other service providers, with these expenses not always washing out in the income statement given the timing of collections/payments.
- 5) Asset managers tend to be asset light, so capital expenditures and depreciation and amortization will not be meaningful in size. The firms will, however, use acquisitions to gain exposure to faster-growing products and/or geographic markets.

Sources: Company reports, Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

See Important Disclosures at the end of this report.

Coverage List and Ratings

Morningstar covers nine of the publicly traded US-based traditional asset managers and three of the publicly traded alternative-asset managers. We also keep a close eye on the activities of major asset managers in the traditional space that are either privately held—like Vanguard and Fidelity—or part of a larger organization—like State Street Global Investors and JP Morgan Asset Management—as well as monitor the business results of Apollo Global Management and Ares Management in the alternative-asset management segment.

Morningstar US-Based Asset-Manager Coverage

Most of our traditional asset-manager coverage is trading around our fair value estimates, while the alternatives are trading at a premium, with no margin of safety.

	Ticker	Current Price	Cons. 2025 P/E	Cons. 2026 P/E	Fair Value Estimate	Price/ FVE	Moat Rating	Uncertainty Rating	Capital Allocation	Stock Rating	Market Cap (bil)	09/30/24 FPAUM (bil)	Dvd. Yield (%)	YTD Price Δ (%)
Traditional Asset Managers														
BlackRock	BLK	1047.37	21.5	19.2	1100.00	0.95	Wide	High	Exemplary	★★★	155.2	11475.4	1.9	29.0
Invesco	IVZ	17.67	9.3	8.4	19.00	0.93	None	High	Standard	★★★	7.9	1795.6	4.6	-1.0
Franklin Resources*	BEN	21.67	9.0	8.3	22.00	0.99	None	High	Standard	★★★	11.4	1678.6	5.7	-27.3
T. Rowe Price Group	TROW	118.77	12.8	12.2	125.00	0.95	Narrow	High	Exemplary	★★★	26.2	1630.9	4.2	10.3
Federated Hermes	FHI	42.18	10.1	9.3	42.00	1.00	None	High	Standard	★★★	3.5	800.5	2.9	24.6
AllianceBernstein^	AB	36.57	10.1	9.1	39.00	0.94	None	High	Standard	★★★	4.1	805.9	8.3	17.9
Affiliated Managers Group	AMG	186.42	7.8	6.8	195.00	0.96	None	High	Standard	★★★	5.6	728.4	0.0	23.1
Janus Henderson Group	JHG	44.50	12.2	11.5	38.00	1.17	None	High	Standard	★★	6.9	382.3	3.5	47.6
Cohen & Steers	CNS	100.47	28.0	25.5	92.00	1.09	Narrow	High	Exemplary	★★★	5.1	91.8	2.3	32.7
Alternative Asset Managers														
Blackstone	BX	181.41	31.3	26.2	155.00	1.17	Narrow	High	Standard	★★	221.6	808.7	1.9	38.6
KKR & Company	KKR	150.02	24.8	20.3	130.00	1.15	Narrow	High	Standard	★★	132.8	505.7	0.5	81.1
Carlyle Group	CG	50.46	11.4	10.5	53.00	0.95	Narrow	High	Standard	★★★	17.8	313.6	2.8	24.0

Sources: Company reports, Morningstar Direct, PitchBook and Morningstar equity research data and estimates. Stock price and Morningstar rating data as of market close on Nov. 15, 2024.
*Franklin Resources has a September fiscal year end that could impact comparability. / ^AllianceBernstein’s quarterly cash distributions are considered a return of capital as opposed to dividend income.

See Important Disclosures at the end of this report.

Economic Moats

Switching costs and intangible assets tend to be the most durable sources of competitive advantage in the asset-management industry.

Summary of Moat Ratings and Sources

Traditional Asset Managers

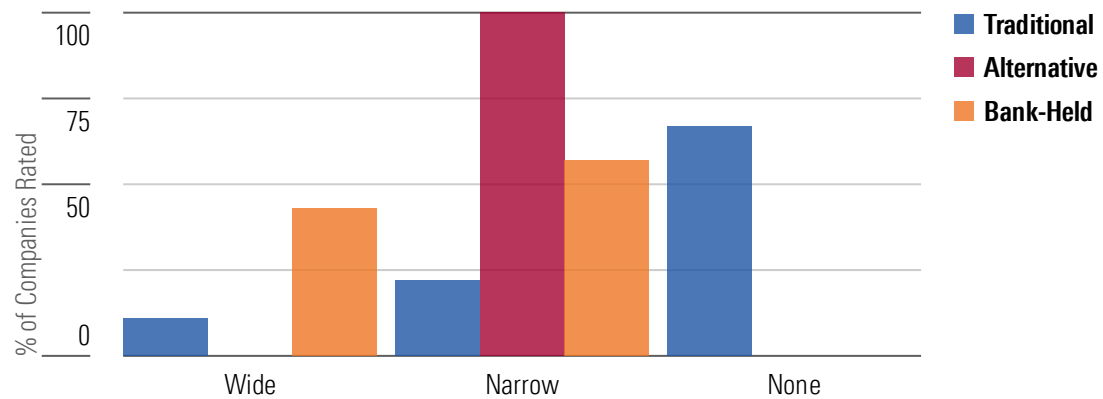
There is only one wide-moat firm among the US-based traditional asset managers, as increased competition from passive products and retail distributor consolidation have diminished the moats of many firms in the industry. Some bank-held asset managers benefit from built-in distribution arms, which can enhance switching costs. Overall, though, most asset managers — whether stand-alone firms or part of large bank operations — can have narrow economic moats, but we’ve found that most of the US-based traditional asset managers have diminished into no-moat territory.

Switching costs and intangible assets tend to be the most durable sources of competitive advantage. Asset managers can improve on the switching costs inherent in their business with organizational attributes and intangible assets that provide a degree of differentiation from peers. We don't think cost advantage applies to asset managers (except in the cases of index fund and ETF providers), as scale does not always confer above-average operating profitability, and the industry tends to price as an oligopoly.

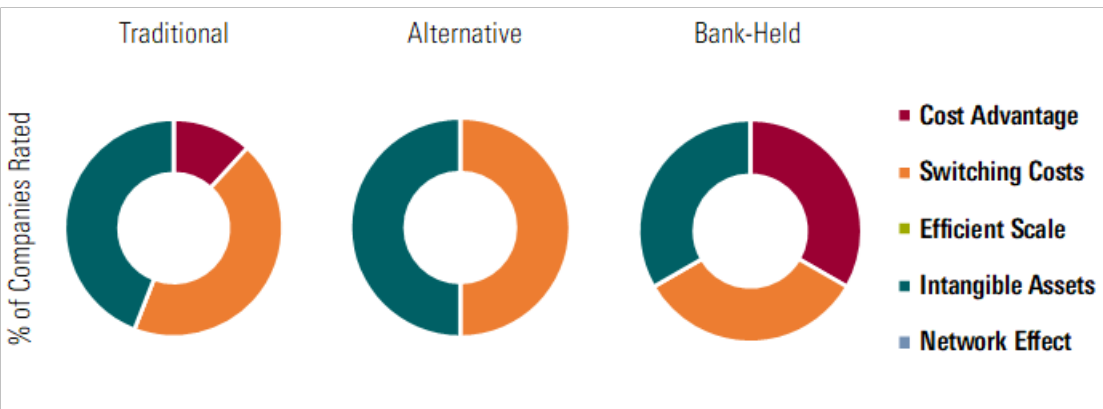
Alternative-Asset Managers

While Blackstone skews more wide than narrow, we have limited the firm and the other stand-alone alternative-asset managers to narrow moat ratings, believing it will become increasingly more difficult for these managers to consistently generate excess returns as we believe that increased competition, increased pressure on fees, higher overall tax rates (relative to their history), and a general maturing of the alternatives industry (from a solid period of above-average growth) will eventually weigh on results.

Distribution of Moat Ratings for Traditional and Alternative-Asset Managers



Distribution of Moat Sources for Traditional and Alternative-Asset Managers

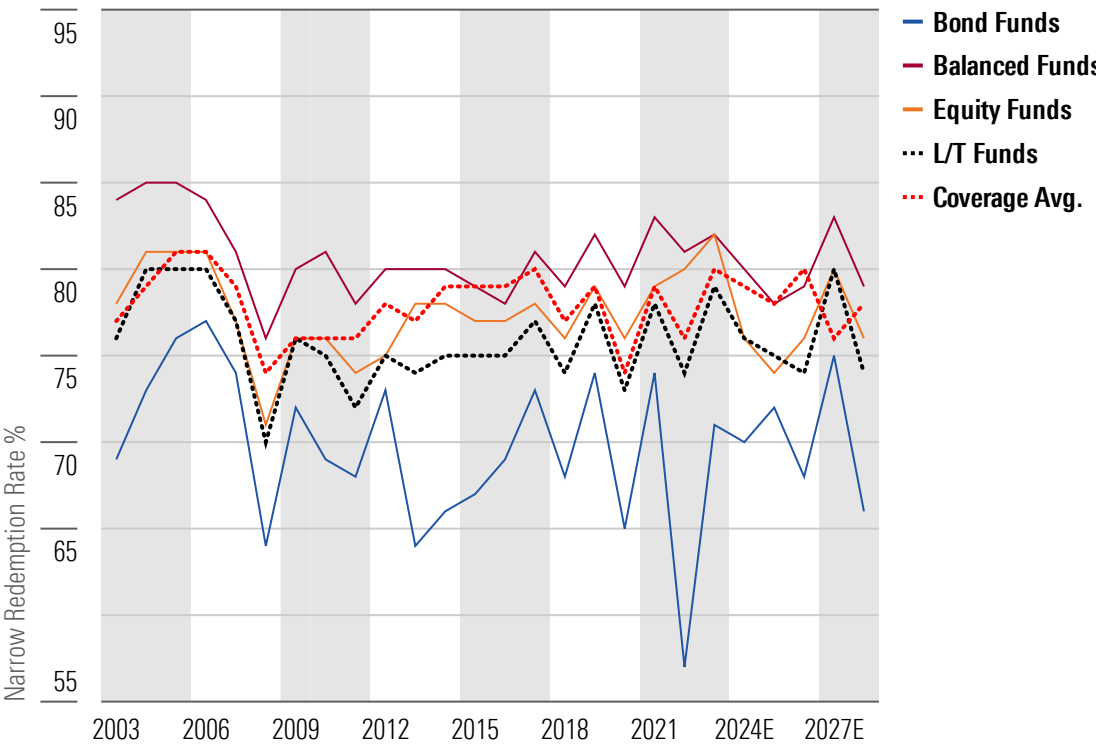


Retention Rates for Our Traditional Asset Managers Have on Average Been Slightly Higher Than Industry Levels

We gauge the switching cost strength of each of the traditional asset managers in our coverage by looking at the annual retention rates for the industry and broad asset classes and then comparing them to each of the firms we cover. For the industry, the average narrow retention rate, which does not include exchange redemptions, has been 75% or greater on average annually the past thirty years. While our coverage has outperformed the industry on average in most years, there are outperformers and underperformers in the group.

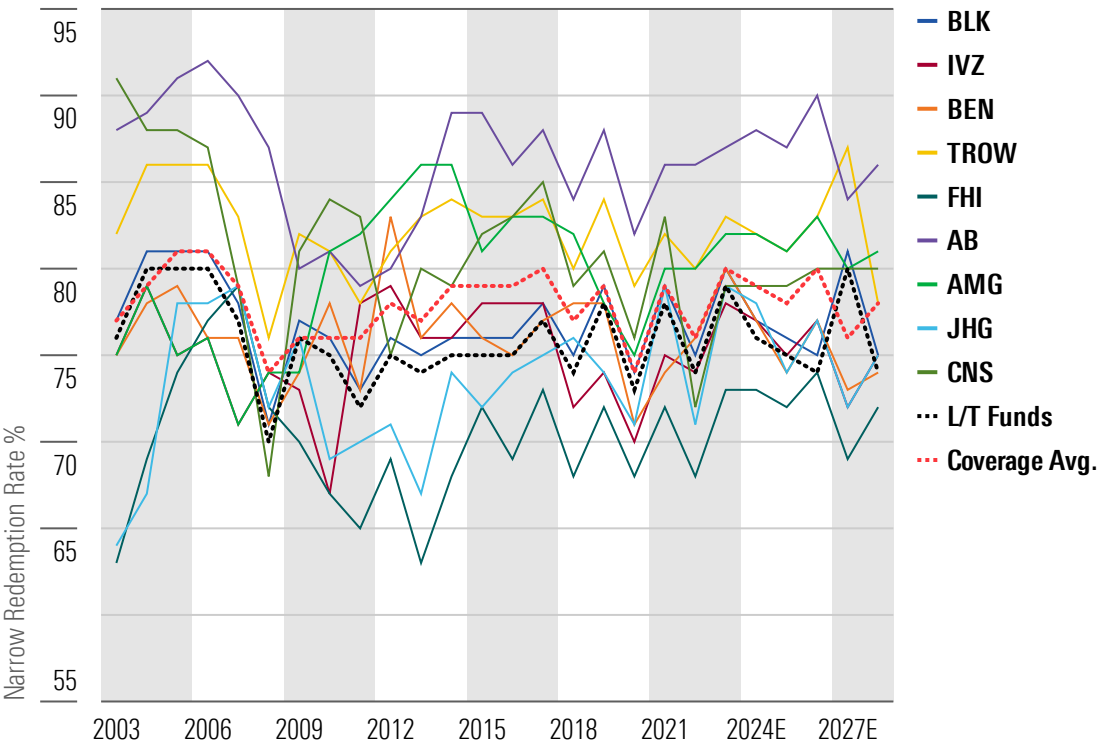
Annual Narrow Retention Rates for Long-Term Funds Versus Coverage—2003-28E

Bond funds have historically had lower retention rates than equity and balanced funds.



Annual Narrow Retention Rates for Traditional Manager Coverage—2003-28E

T. Rowe Price, AB, and AMG have tended to have higher retention rates than their peers.

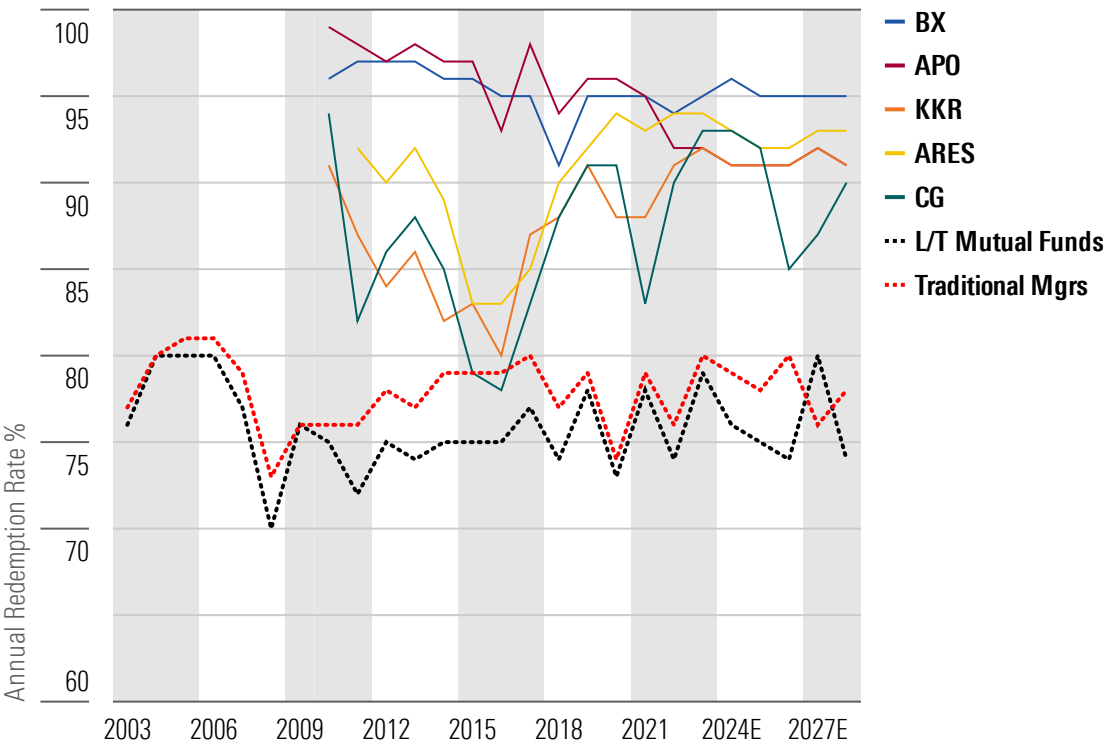


Lockups Increase the Annual Retention Rates and Switching Costs for the Alternative-Asset Managers

Unlike the more traditional asset managers, who have to rely on investor inaction to keep annual retention rates high (generally in a 70%-80% range for long-term AUM), the products offered by alternative-asset managers can have lockup periods attached to them, which prevent investors from redeeming part or all their investment for prolonged periods. Generally, we favor longer lockup periods (like private equity funds with 10-year lockup periods), which have more substantial switching costs and tend to lead to lower redemption rates.

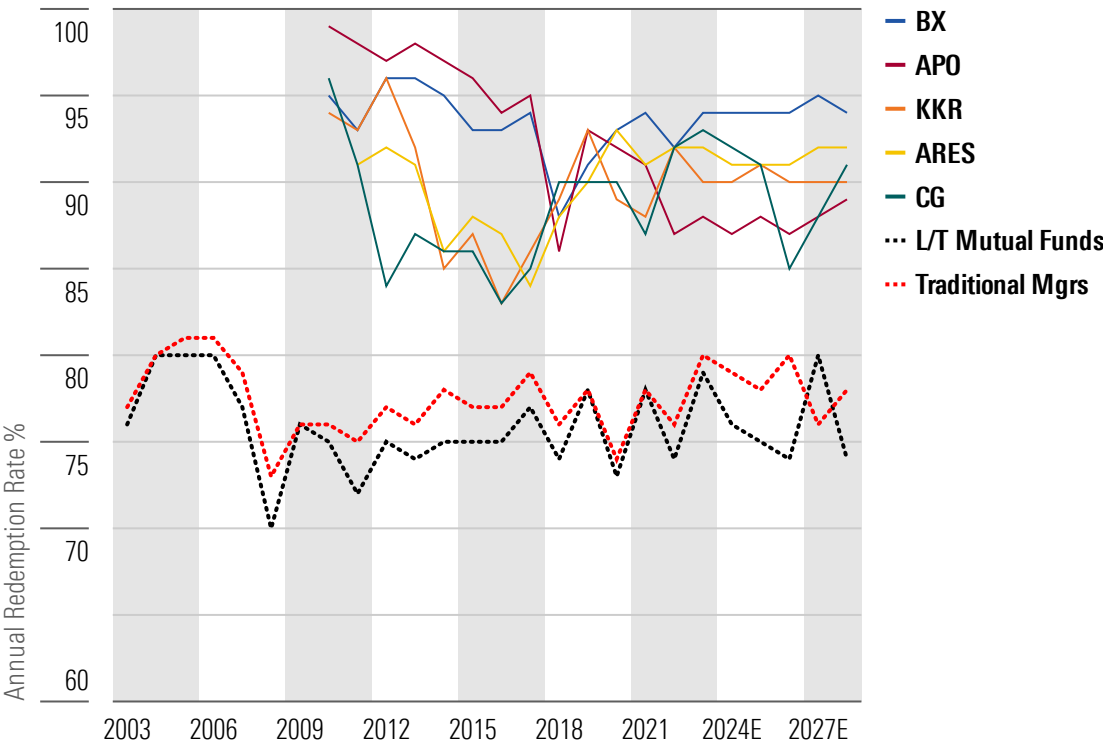
Annual Retention Rates for Total AUM of Largest Alternative Managers—2003-28E

Blackstone has generally had one of the best retention rates in the alternatives industry.



Annual Retention Rates for Alternative Managers' Fee-Earning AUM—2003-28E

Retention rates tighten up some when looking at fee-earning assets under management.



Sources: Company reports, Morningstar equity research data and estimates. Data as of Nov. 15, 2024. Since the alternative asset managers did not go public until 2007-08 (and later), there is a gap in data between their annual retention rates and those of the traditional asset managers and broader US mutual fund market. See Important Disclosures at the end of this report.

Switching Costs Alone Are Not Enough to Ensure a Competitive Advantage

Although the switching costs for the traditional asset managers might not be explicitly large, inertia and the uncertainty of achieving better results by moving from one manager to another, as well as the potential tax consequences of selling a fund with significant gains, tend to keep investors in place.

While this has left retention rates in a 70%-80% range over the years (except during periods of major market dislocations), it has not been enough to keep capital from walking out the door. Without decent sales results, built on a diverse set of products, with solid distribution efforts and geographic reach, as well as fees that are compelling for investors, asset managers will end up bleeding assets. This makes them far more dependent on market gains to expand their assets under management.

Asset managers can improve on the switching costs inherent in their business with organizational attributes—product mix, distribution channel concentration, and/or geographic reach—and intangible assets—strong and respected brands and manager reputations from a record of generating above-average investment performance relative to peers—that can provide them with a degree of differentiation from their peers.

While the barriers to entry are not significant, the barriers to success are extremely high. It takes time and skill to not only produce a history of solid investment performance and to gather assets but build the scale necessary to be competitive. Having scale across product lines can provide larger, more established asset managers with an advantage over smaller players, especially when accessing the various distribution platforms.

Organizational Attributes and Intangibles Assets Can Affect Switching Costs

High industry retention rates are not enough to keep assets from flowing out of funds.



Economic Moat Heat Map for US-Based Asset Managers Covered by Morningstar

When assessing the competitive strengths and weaknesses of the US-based asset managers, we focus on nine characteristics that we believe can separate the winners from the losers in the industry. The characteristics are: AUM Scale Efficiency; Product Breadth & Geographic Reach; Passive & Active Capabilities; Distribution Channel Strength; Switching Costs Strength; Fee Pricing Power; Fee Diversity & Exposure; Investment Performance & Manager Reputation; Culture & Stewardship; and Capital Investment Efficiency.

Economic Moat Map for the Traditional and Alternative US-Based Asset Managers

Nine characteristics categorized by the four traits—differentiation, low-cost funds, repeatable investment processes, and adaptable business models—we see as necessary for success.

Coverage				Differentiation					Low Costs		Repeatable / Adaptable Processes		
Company	Ticker	Economic Moat	09/30/24 AUM (USD bil)	AUM Scale Efficiency	Product Breadth & Reach	Passive & Active Capabilities	Distribution Channel Strength	Switching Costs Strength	Fee Pricing Power	Fee Diversity & Exposure	Performance & Reputation	Culture & Stewardship	Capital Investment Efficiency
BlackRock	BLK	Wide	11,475										
Invesco	IVZ	None	1,796										
Franklin Resources	BEN	None	1,679										
T. Rowe Price	TROW	Narrow	1,631										
Blackstone	BX	Narrow	809										
Federated Hermes	FHI	None	800										
AllianceBernstein	AB	None	806										
Affiliated Managers Group	AMG	None	728										
KKR & Company	KKR	Narrow	506										
Janus Henderson	JHG	None	382										
Carlyle Group	CG	Narrow	314										
Cohen & Steers	CNS	Narrow	92										

Positive

Neutral

Negative

Industry Basics: Traditional Asset Managers

Investors should focus on organic AUM growth, market exposure and relative performance, fee compression rates, and operating leverage and margins.

Managers Generating Above-Average Organic AUM Growth and Operating Margins are Better Long-Term Bets

With retention rates tending to be stable (in a range of 70%-80% annually), firms with better sales results can generate above-average levels of organic AUM growth. Asset-class exposure and historical performance relative to benchmarks play a role in those sales, as well as our future forecasts. Scale and performance within each asset class (especially those with higher levels of passive product penetration) influence the level of base management fees, while the mix of fixed and variable costs have a big impact on operating profitability.

Key Things to Focus on With the Traditional Asset Managers

Most of the firms we cover continue to struggle to differentiate themselves in a manner that would allow them to generate enough in product sales to offset ongoing redemptions.

Organic AUM Growth	Market Exposure / Relative Performance	Realization Rate Movements	Operating Margins / Operating Leverage
Historical Retention (Redemption) Rates	AUM Diversification by Asset Class	Fee Diversification	Level of Fixed Costs
Historical Sales Rates	Historical Relative Performance	Fee Levels by Asset Class	Operating Leverage
Trends in Institutional Capital Movements	Forward 10-Yr Forecasts	Fee Compression History	Historical Margin Levels
		Exposure to Passive	Relative Margin Position

What Is Organic AUM Growth?

Organic AUM growth reflects net flows into long-term managed assets (everything but money market funds and non-fee generating assets) divided by beginning of period long-term AUM. With redemption rates being relatively stable, organic AUM growth provides us with a better picture of a firm's drawing power. In this case, Invesco did a better job than most of its peers in 2023. While the firm still had net outflows the one quarter during the year, it wasn't adding to a difficult couple of years marred by high levels of investor outflows.

Positive Organic AUM Growth Can Augment Good Years in the Markets and Offset Poor Years of Market Performance

Invesco Quarterly and Annual Composition of Assets Under Management – Q4 2022 to Q4 2023

	Q1 2023	Q2 2023	Q3 2023	Q4 2023	FY 2023		Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Beginning Period Total AUM (USD Billions)	1,409,200	1,483,000	1,538,200	1,487,300	1,409,200	Active Equity	277,500	294,300	300,600	282,100	302,900
Sales (Long-Term AUM)	79,400	71,300	67,400	81,000	299,100	Passive Equity	359,500	401,400	446,500	444,600	520,800
Redemptions (Long-Term AUM)	(76,500)	(73,300)	(64,800)	(74,300)	(288,900)	MultiAsset	67,100	67,900	64,200	61,200	62,700
Annualized Retention Rate	71.8%	73.0%	76.5%	72.9%		Active Bond	273,000	276,700	274,000	266,600	280,000
Annual Retention Rate					73.5%	Passive Bond	40,700	45,100	45,000	46,000	45,700
Average Long-Term AUM	1,083,200	1,085,900	1,101,000	1,095,000	1,091,300	Money Market	203,500	211,500	225,700	209,800	192,700
Net Long-Term Flows	2,900	(2,000)	2,600	6,700	10,200	Alternatives	187,900	186,100	182,200	177,000	180,500
Annualized Organic AUM Growth	1.1%	-0.7%	0.9%	2.5%							
Annual Organic Growth Rate					1.0%	Total AUM	1,409,200	1,483,000	1,538,200	1,487,300	1,585,300
Long-Term AUM (Beginning of Period)	1,050,600	1,088,700	1,102,400	1,070,500	1,050,600	Long-Term AUM	1,050,600	1,088,700	1,102,400	1,070,500	1,153,700
Other Net Flows	(1,600)	1,100	3,600	3,100	6,200						
Money Market Net Flows	7,700	15,400	(16,100)	(18,100)	(11,100)	Average AUM	1,391,500	1,463,000	1,494,900	1,528,700	1,515,600
Reinvested Distributions	1,000	1,000	1,100	8,400	11,500	Average Long-Term AUM	1,042,400	1,083,200	1,085,900	1,101,000	1,095,000
Market Gains / (Losses)	61,900	46,500	(34,200)	86,900	161,100						
% Gain / (Loss) on Total AUM	4.4%	3.1%	-2.2%	5.8%	11.4%	Management Fees (USD Millions)		1,028	1,034	1,041	1,003
Acquisitions, Foreign Currency & Other	1,900	(6,800)	(7,900)	11,000	(1,800)	Realization Rate on Total Average AUM		0.38%	0.38%	0.38%	0.37%
End of Period Total AUM (USD Billions)	1,483,000	1,538,200	1,487,300	1,585,300	1,585,300						

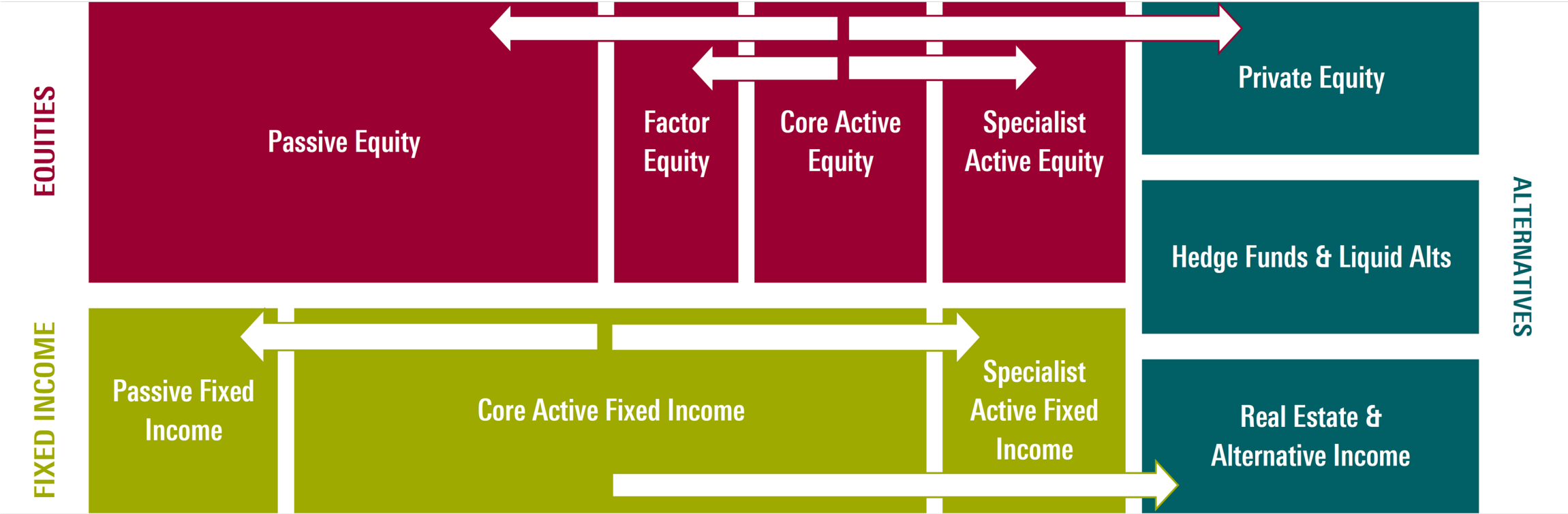
Sources: Company reports, Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

See Important Disclosures at the end of this report.

Institutional Capital Movements Can Provide Early Insight Into Where Retail Flows Will Be Heading Over Time

Following the 2008-09 global financial crisis, institutional capital that had historically been dedicated to active equity and fixed-income strategies started migrating over to passive products, specialty offerings, and alternative assets—with the former offering low-cost market exposure and the latter providing alpha. While the retail shift took a bit longer, we've seen similar movement in the retail-advised channel, especially with high-net-worth clients, who as “sophisticated investors” can invest in private equity and private credit offerings.

Institutional Capital Continues to Flow Out of Core Equity and Fixed Income Strategies and Into Passive Products, Specialist Managers, and Alternative Assets
This has worked more to the benefit of the alternative asset managers and the traditional asset managers with private equity and credit offerings.

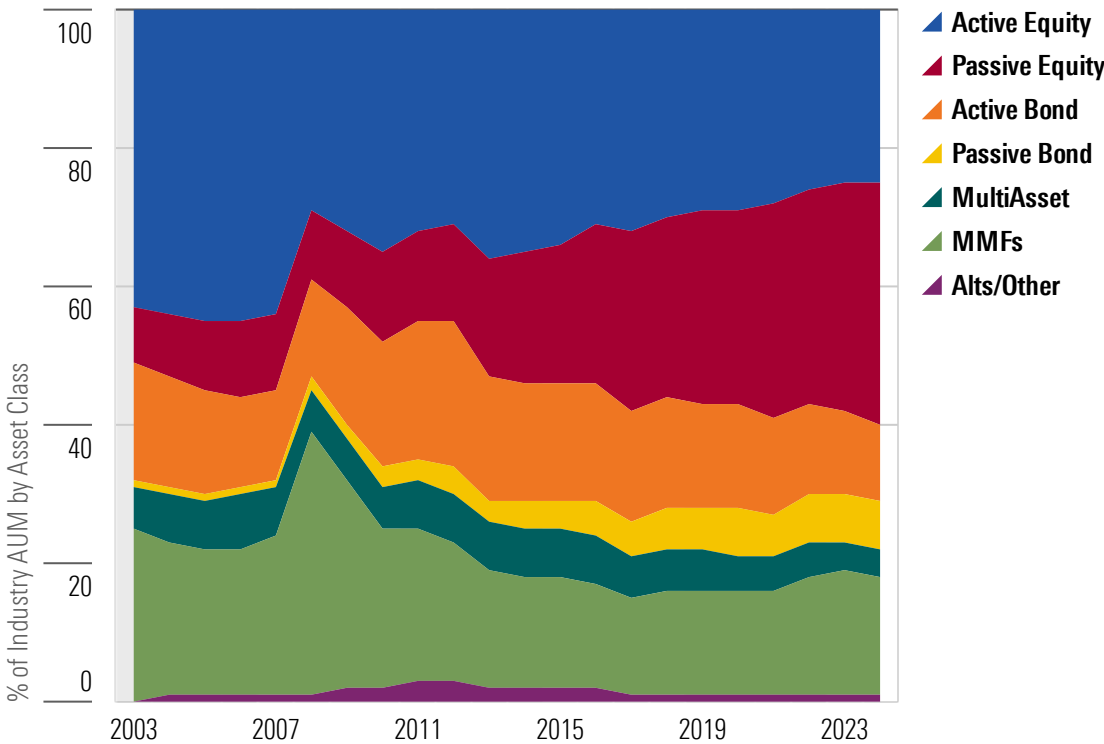


Traditional Asset Managers’ Greater Exposure to Active Equities Is A Negative for Organic AUM Growth

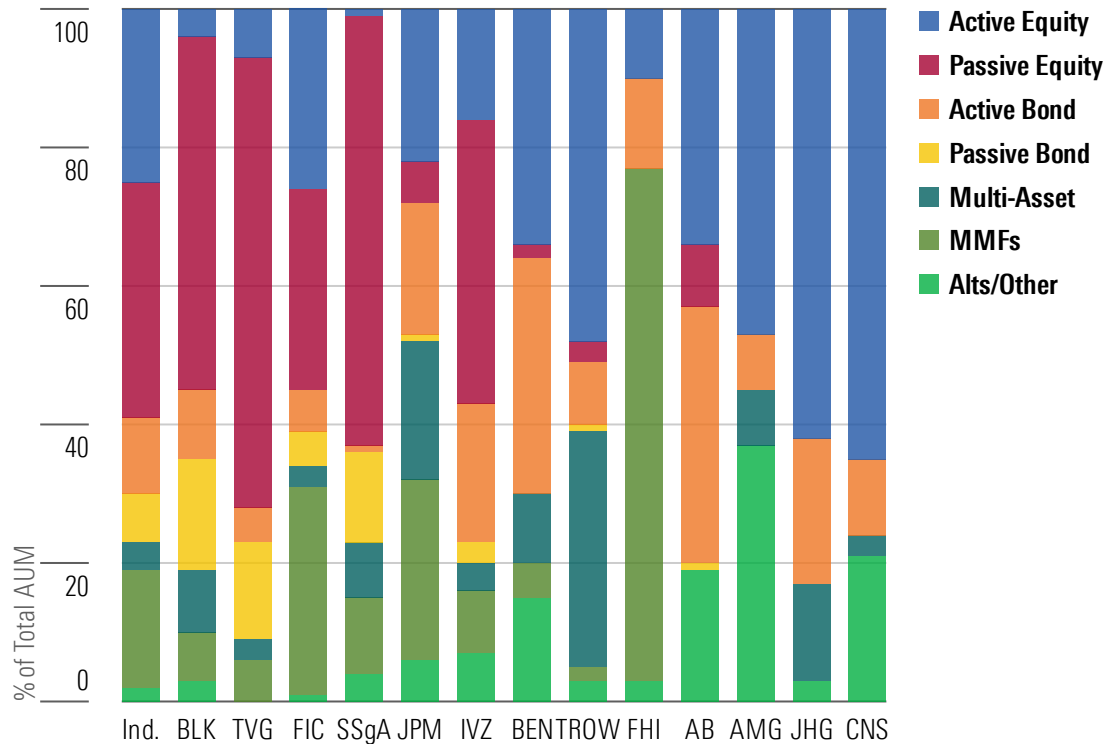
While passive product growth over the past 20 years has had a negative impact on the active equity category, the active bond category has not been immune, although it is still early days with much of the passive bond growth so far not being replacement based.

Many firms in our coverage have more exposure to active equity funds, which are the most exposed to the growth of passive, with only BlackRock in the group having more passive exposure than the industry (and Vanguard and SSgA in even better shape).

Percentage of Industry AUM by Asset Class Category—2003-24E
Passive products accounted for 42% of industry AUM at the end of September 2024.



AUM Dispersion by Asset Class for Traditional Asset Managers—Q3 2024
Equities still account for a large portion of the AUM of the traditional asset managers.



Sources: Morningstar Direct, Morningstar equity research data and estimates company reports,. Data and estimates as of Nov. 15, 2024.

See Important Disclosures at the end of this report.

Fund Performance and Fees Have Become More Important Considerations in Fund Positioning and Sales

The Active/Passive Barometer assesses the performance of US active fund managers against their fee-charging passive peers within their respective Morningstar categories. As can be seen, the biggest problem with a heavier weighting towards active large-cap equities is that these active fund managers have generally underperformed their passive benchmarks over longer periods of time, with this failure tending to be positively correlated with fees — with higher-cost funds more likely to underperform and lower-cost funds likelier to succeed.

Actively Managed Funds Have Generally Underperformed Their Passive Fee-Charging Counterparts — Especially Over Longer Time Horizons

Green/red shading indicates that active funds in this fee quintile had above/below-average success rates.

Morningstar US Active/Passive Barometer — Midyear 2023 Active Funds' Success Rate by Category (%)

Category	1-Year	3-Year	5-Year	10-Year		
				Overall	Lowest Cost	Highest Cost
US Large Blend	51.3	41.4	39.1	15.2	19.7	6.8
US Large Value	52.2	39.9	36.5	20.9	20.3	18.5
US Large Growth	55.2	42.6	29.4	22.4	27.5	18.2
US Mid Blend	38.8	48.5	36.7	15.3	18.2	4.3
US Mid Value	46.2	49.1	45.0	23.6	26.3	31.8
US Mid Growth	25.5	48.7	30.6	35.0	33.3	27.9
US Small Blend	57.7	67.2	50.0	31.1	33.3	36.8
US Small Value	70.8	73.9	45.6	40.6	38.1	45.5
US Small Growth	30.3	42.3	36.5	42.0	42.9	41.9
Foreign Large Blend	44.6	31.7	42.0	31.8	45.5	17.1
Foreign Large Value	45.4	40.7	46.7	40.8	41.2	30.0
Foreign Small/Blend	62.1	33.3	33.3	32.0	40.0	16.7
Global Large Blend	42.1	35.1	29.8	8.1	-	16.7
Diversified Emerging Markets	40.1	26.8	37.6	30.1	37.8	27.0
Europe Stock	41.2	31.3	33.3	28.6	25.0	40.0

Despite the Headwinds, Our Traditional Asset-Manager Coverage Benefits When Equity Markets Are Rising

The colorful pattern in this “quilt chart” for traditional asset management categories illustrates how unpredictable the ups and downs of the different market segments can be. Rising interest rates, high inflation, and reduced growth expectations globally created a difficult environment for both equity and fixed-income markets during 2022. But the recovery in most markets in 2022-23 has lifted the fortunes of many of the traditional asset managers we cover, even if their fund offerings continue to underperform their benchmarks or categories.

US and International Developed Stock Returns Have Helped Lift Overall AUM Levels for the Traditional Asset Managers the Past Decade

Traditional Asset Management Annual Asset-Class Winners and Losers—2014-23 and First Three Quarters of 2024

Highest Return %	13.6	1.8	20.3	36.0	1.2	31.8	21.7	27.2	16.1	29.8	29.1		12.4	Large Stocks	
	7.2	1.8	17.1	25.5	-1.7	26.0	18.8	27.1	-11.2	20.6	17.4		7.6	Small Stocks	
	6.9	0.7	11.8	22.7	-2.1	23.5	16.4	16.3	-12.6	17.9	10.1		5.7	International Developed Stocks	
	6.4	-1.4	11.4	15.0	-3.4	19.0	12.8	12.7	-13.7	13.5	9.7		4.9	Emerging-Markets Stocks	
Lowest Return %	4.9	-1.8	11.2	14.7	-4.8	18.6	9.8	10.2	-14.8	13.2	8.2		4.6	Intermediate-Term Government Bonds	
	2.5	-4.5	8.6	7.5	-11.3	14.3	9.1	5.3	-14.8	11.9	6.4		3.9	Intermediate-Term Corporate Bonds	
	-0.8	-4.9	5.8	5.7	-12.1	14.2	9.0	0.0	-17.9	8.6	3.3		3.2	High-Yield Bonds	
	-3.9	-13.3	3.4	2.1	-13.2	7.7	7.1	-1.6	-18.5	3.9	2.7		1.6	Commodities	
	-17.0	-24.7	1.2	1.7	-13.9	7.4	-3.1	-3.0	-20.4	-7.9	0.5		-1.1	Morningstar Moderate Target Risk	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD		2014-23		

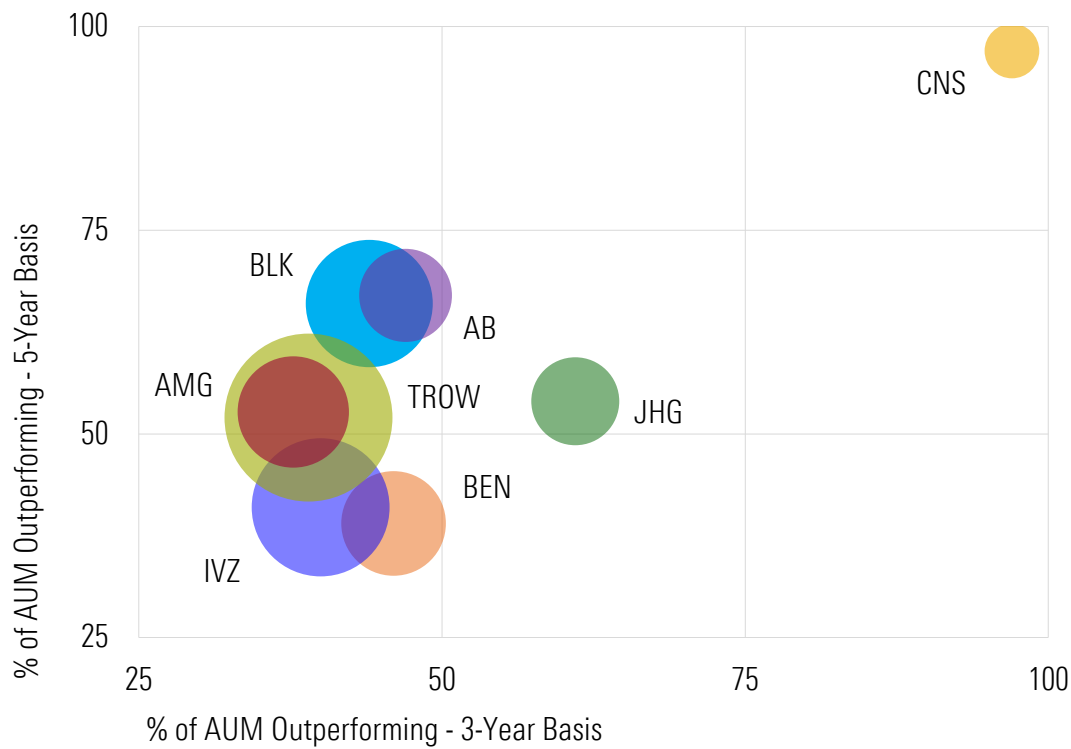
Poorer Relative Performance Means Asset Managers Don't See Full Benefit of Market Tailwinds

Most of the managers we cover have generated weaker equity fund performance, with only Cohen & Steers generating both three- and five-year investment performance in the upper quartile, while BlackRock and Janus Henderson outperform in bond funds.

Even though one-year investment performance can have a big influence on retail flows, it is not indicative of a firm's competitive positioning. Three- and five-year performance tends to matter more to institutional and retail-advised gatekeepers when investing.

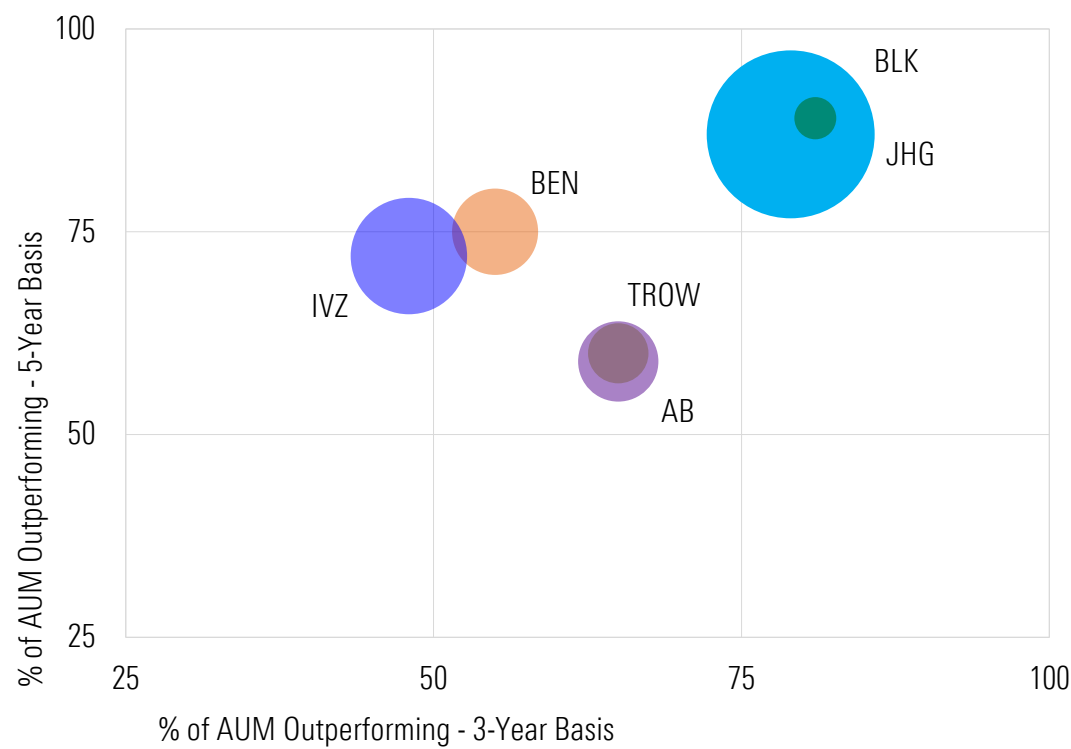
Percentage of Equity Fund AUM in Outperforming Strategies—Q3 2024

Despite the equity market rally, most managers posting weaker relative performance.



Percentage of Bond Fund AUM in Outperforming Strategies—Q3 2024

Bond fund performance has been relatively stable, even during the 2022-23 dislocation.



Sources: Company reports, Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

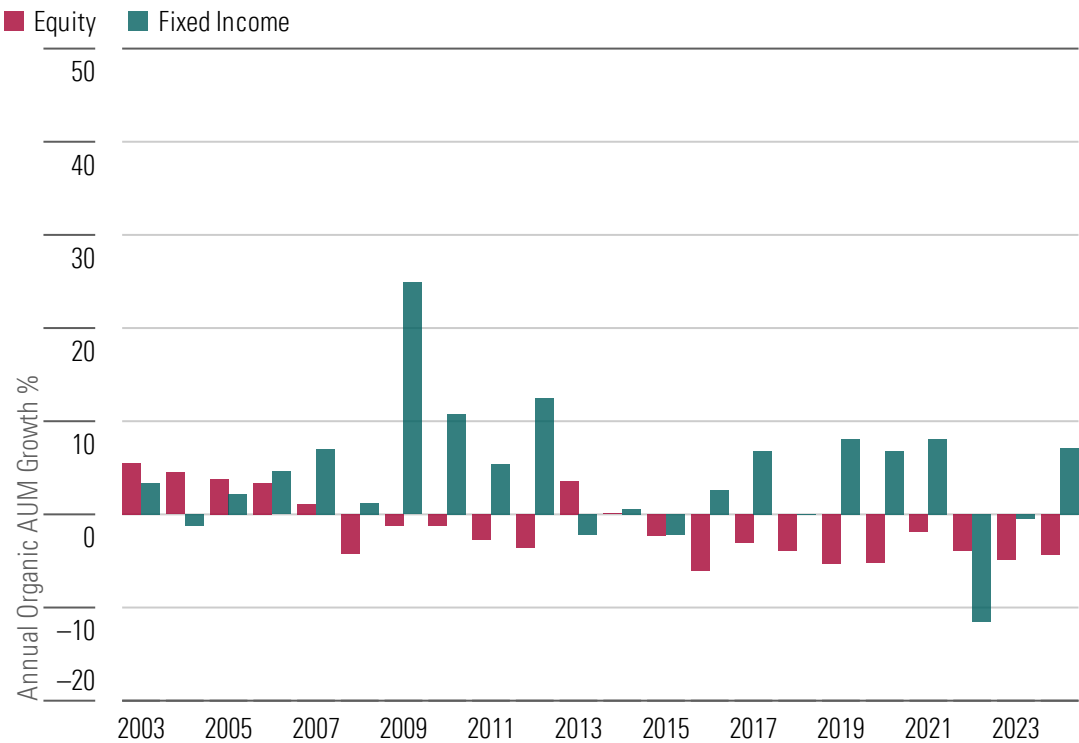
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Industry Organic AUM Growth Has Been Affected by Ongoing Shift in Investor Capital Toward Passive Products

Active equity funds have struggled to generate positive flows, posting negative 4.0% organic AUM growth on average annually during 2020-24. Actively managed bond funds have fared better, posting a 1.7% average annual growth rate the past five years.

Annual Organic AUM Growth for Active Open-End Funds & ETFs—2003-24

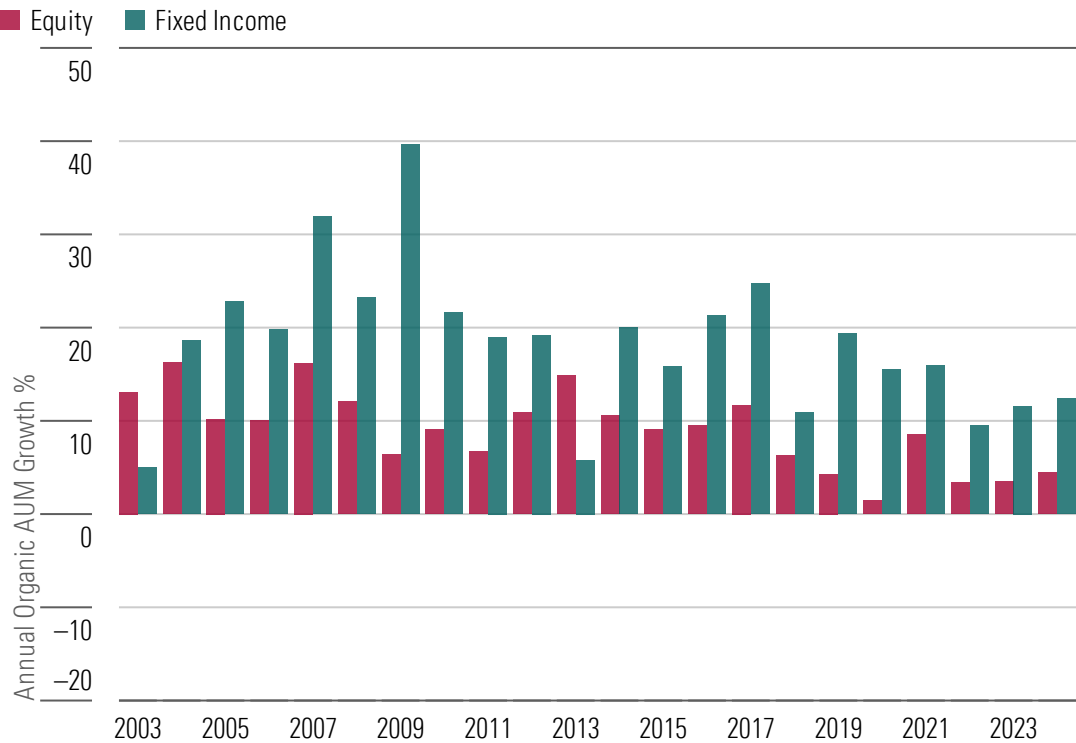
Active equity funds have struggled to generate positive flows the past two decades.



Passive equity product growth hit a speed bump the first year of the covid pandemic but still generated 4.3% annual organic AUM growth on average during 2020-24. Passive bond fund and ETF growth was stronger, averaging 13.0% annually the past five years.

Annual Organic AUM Growth for Passive Open-End Funds & ETFs—2003-24

Passive product growth has been fairly robust over the past couple of decades.



Source: Morningstar Direct. Data and estimates as of Nov. 15, 2024.

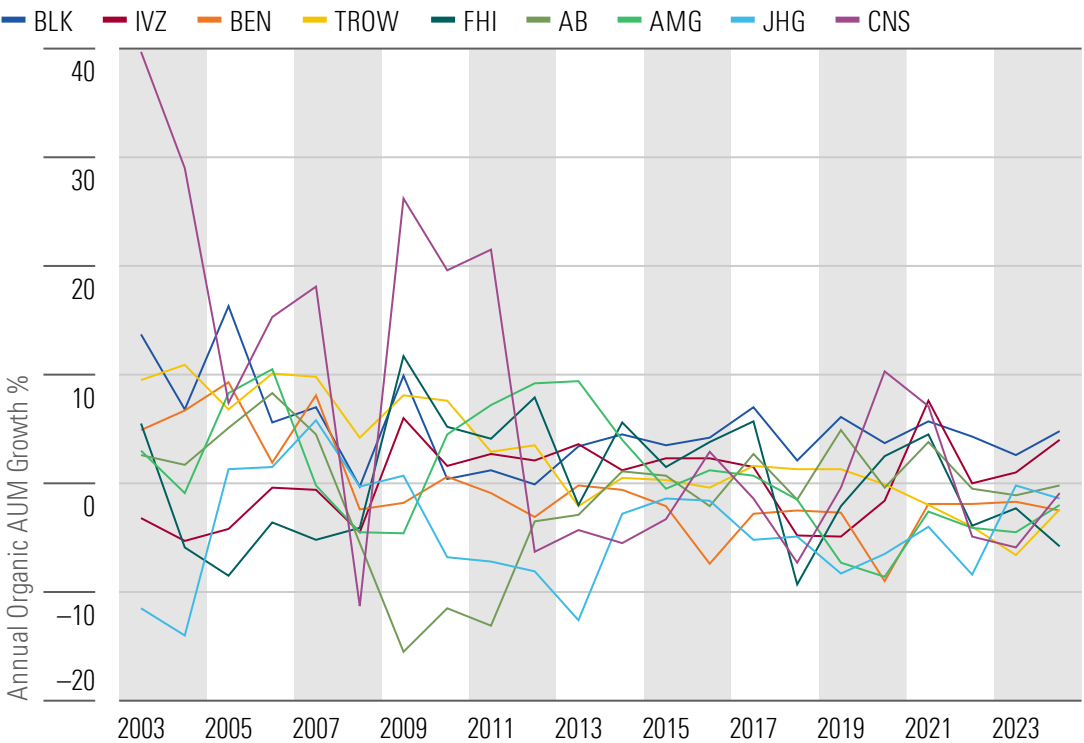
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Organic AUM Growth Has Eluded Most of the Managers in Our Coverage the Past Decade

Given the heavier exposure that most of our traditional asset manager coverage has on active equities, organic AUM growth for the group is going to track active equity fund growth more closely, with active bond fund flows having more of an impact during periods of market dislocation. Going forward, the continued growth of passive products at the expense of active funds will leave more of the traditional managers in our coverage behind, with only BlackRock expected to outpace the industry from an organic AUM growth perspective.

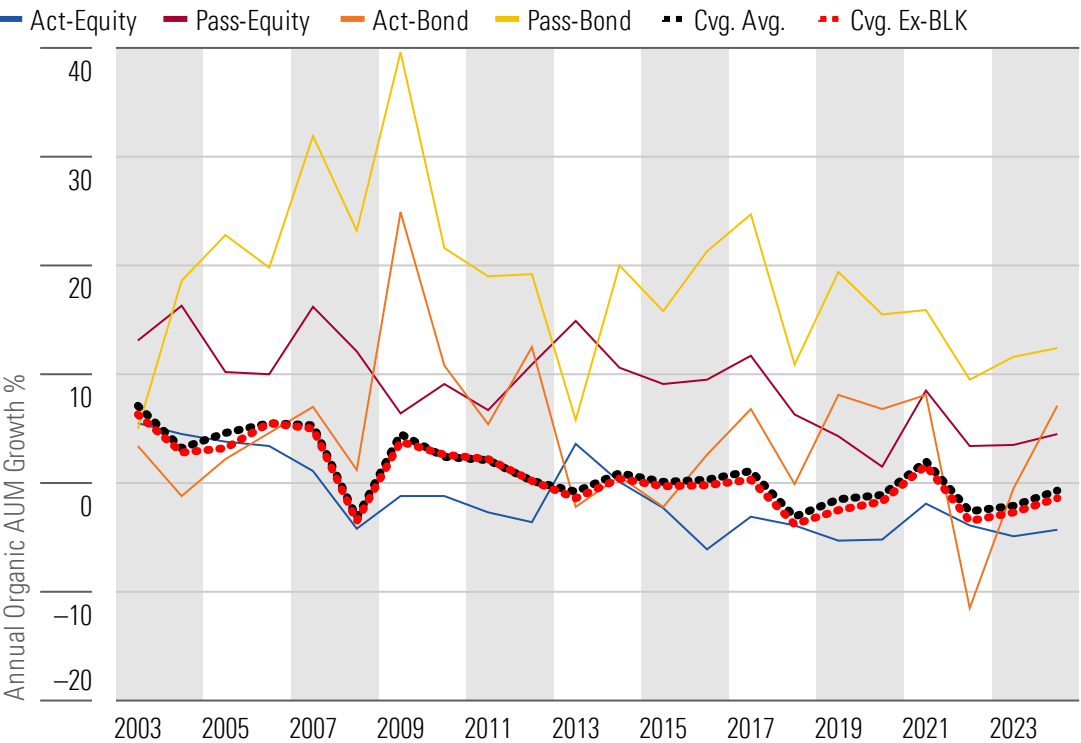
Annual Organic AUM Growth for Traditional Asset Manager Coverage—2003-24

BlackRock has generated higher organic AUM growth with less variance than its peers.



Coverage Annual Organic AUM Growth Rates Relative to Industry—2003-24

Higher equity exposure hews coverage closer to organic AUM growth of active equities.

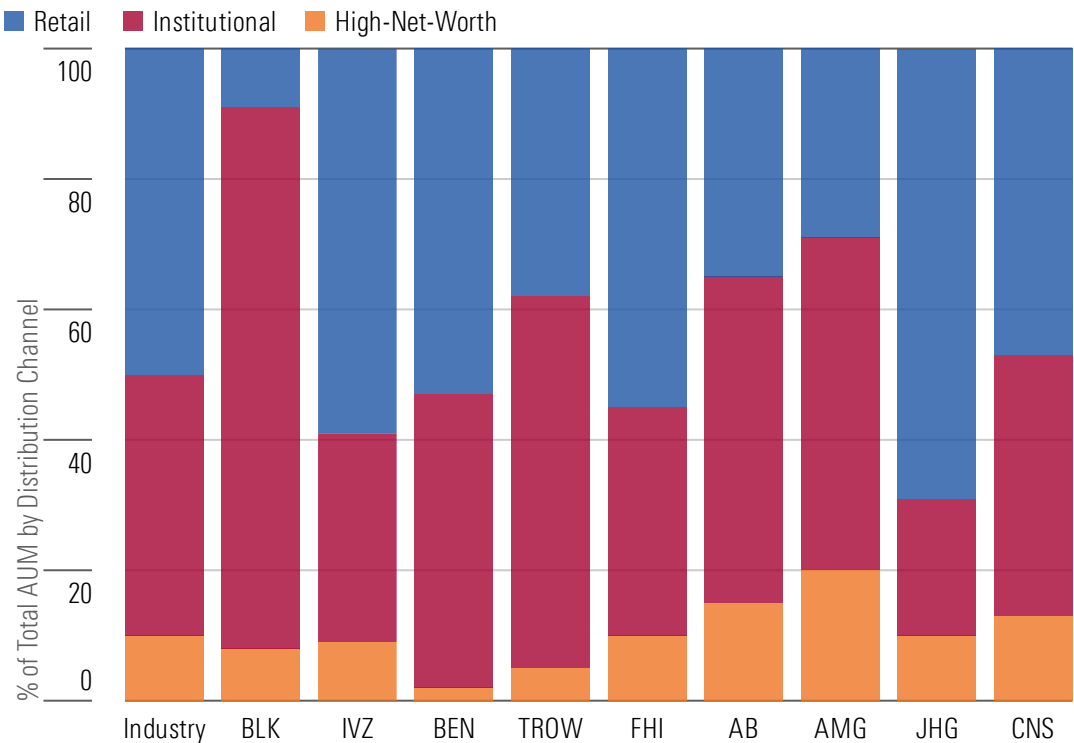


Distribution Channel Positioning and Geographic Reach Can Further Asset Managers' Sales Efforts

While product diversity, performance, and price are expected to be the principal means of competition for the industry, distribution channel positioning is important to consider when assessing the competitive positioning of the traditional asset managers.

Distribution Channel Dispersion by AUM for US-Based Coverage—Q3 2024

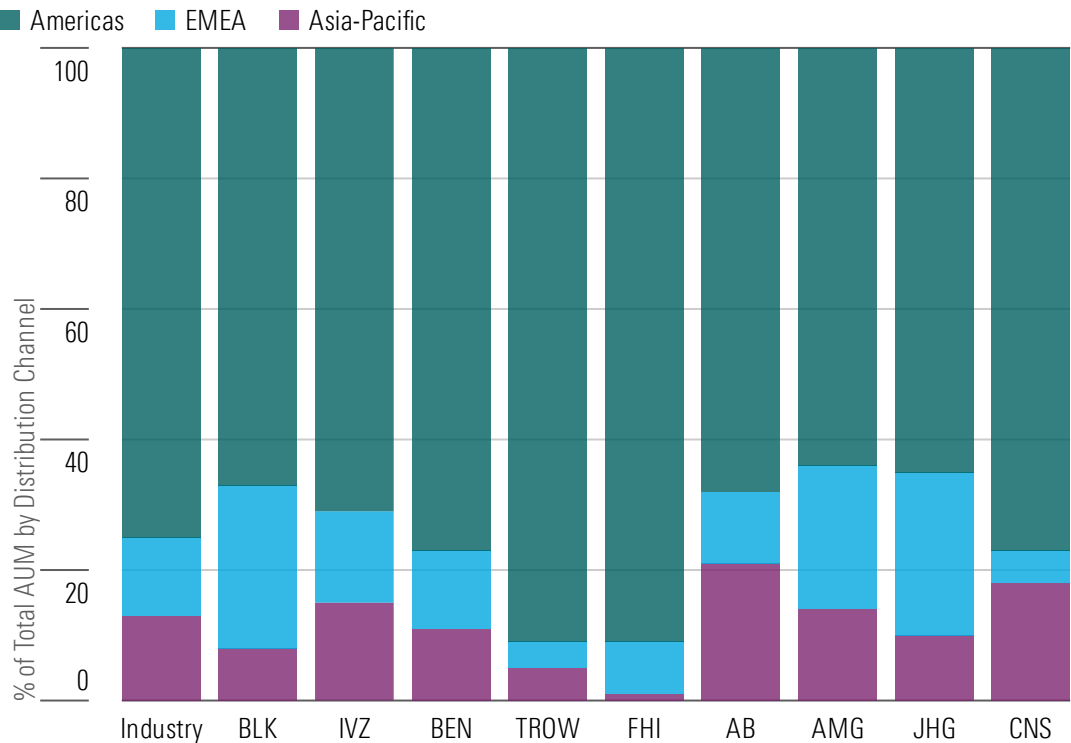
Institutional and high-net worth investors tend to be stickier than retail investors.



Geographic diversification provides asset managers with the ability to gather assets and earn revenue from a wider array of markets, offsetting AUM losses when one market goes out of favor. Unfortunately, few firms are as broadly diversified as they need to be.

Geographic Channel Dispersion by AUM for US-Based Coverage—Q3 2024

Few of the traditional asset managers have AUM exposure outside of the US.



Sources: Company reports, Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

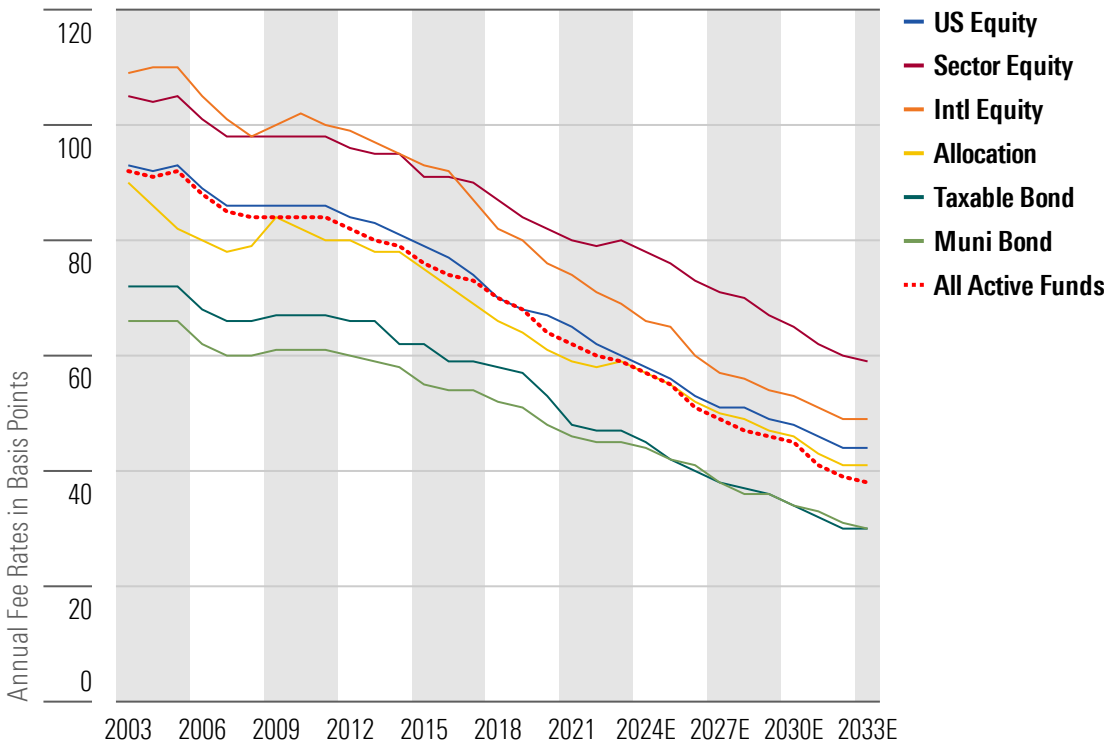
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Average Expense Ratios for Both Active and Passive Funds Continue to Decline

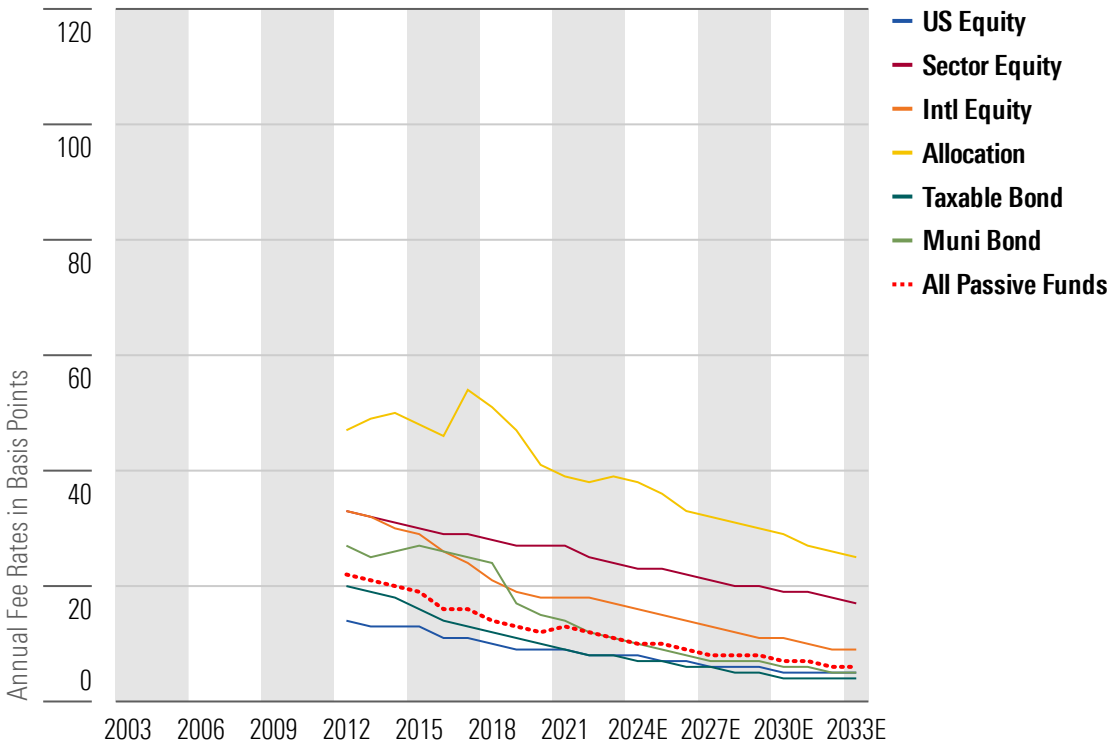
Asset-weighted average management fee rates have been falling for more than two decades, with the fee rate for actively managed funds overall dropping below 60 basis points in 2023-24, while passive fund fees have averaged closer to 10 basis points.

The passive fund market is one of the few areas where we’ve seen meaningful price competition as the largest players have leveraged the scale of their offerings to drive prices lower as part of an effort to gather and retain more assets than their peers.

Active Fee Compression Should Continue at Same Pace Seen During Past Decade
Asset-Weighted Average Fees by Morningstar Category for Active Funds—2003-33E



Passive Fees Will Continue to Decline as ETF and Index Fund Scale Increases
Asset-Weighted Average Fees by Morningstar Category for Passive Funds—2003-33E



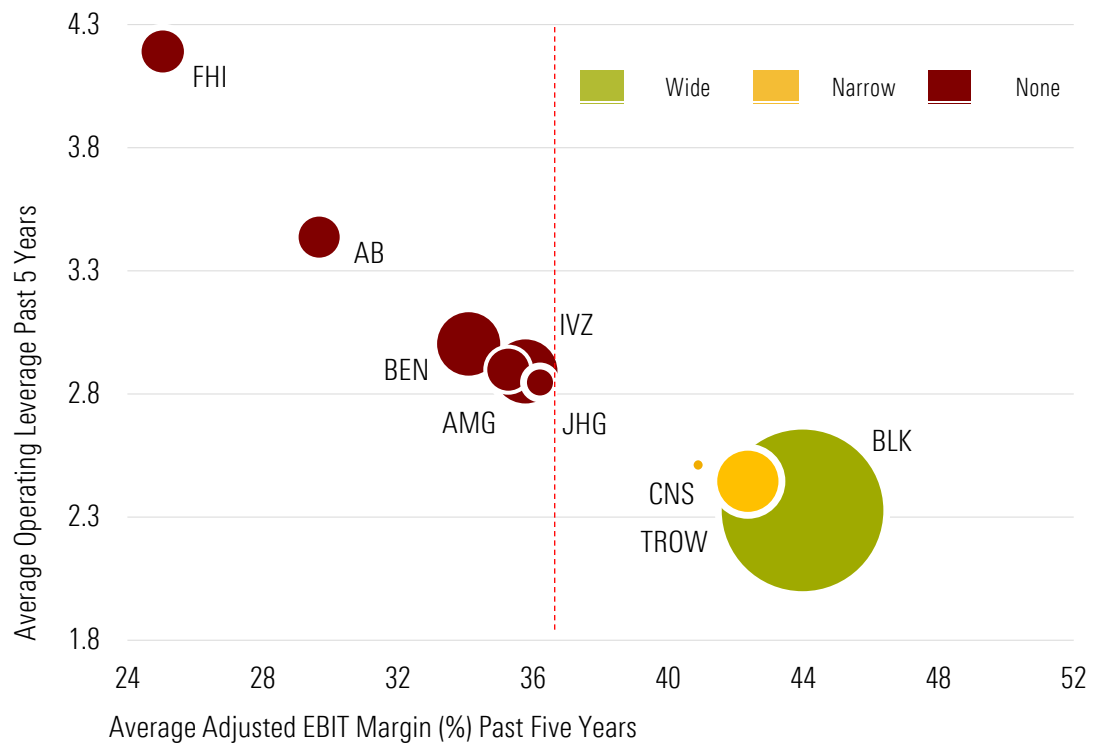
Sources: Morningstar Direct and Morningstar Research Services data and estimates. Data as of Nov. 15, 2024.

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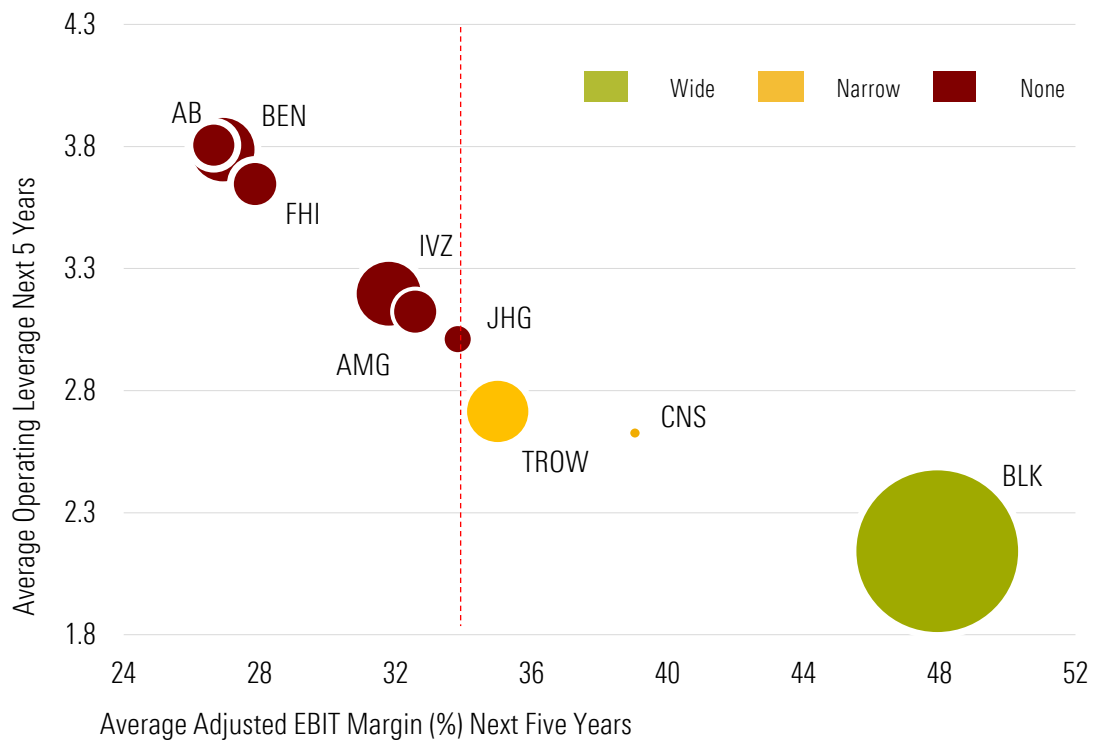
Firms With Lower Levels of Operating Leverage and Above-Average Margins Are Better Bets in the Long Run

While asset-management firms with greater amounts of AUM tend to have scale advantages, having more scale is not always a guarantee of higher levels of profitability, as T. Rowe Price continues to be more profitable than Invesco and Franklin Resources, which are similarly sized. In this business, which can be volatile, it also pays to stick with firms with above-average levels of operating profitability more stable firms with less operating leverage, making BlackRock the most attractive option, followed by Cohen & Steers and T. Rowe Price.

Scale, Operating Profitability, and Operating Leverage for US-Based Coverage
BlackRock, T. Rowe Price, and Cohen & Steers had best AUM Efficiency during 2019-23.



Scale, Operating Profitability, and Operating Leverage for US-Based Coverage
Only BlackRock stands out from an AUM Efficiency perspective during 2024-28E.



Source: Company reports, Morningstar Research Services. Data as of Nov. 15, 2024. Bubble chart reflects the size of each asset manager's operations (with bubbles reflective of average AUM levels during the past year) as well as their current moat designations (as denoted by the colors in the legend). The X and Y axes on the chart reflect average annual adjusted operating margins and average operating leverage during 2019-23 and 2024-28E. The red dotted line reflects the average annual adjusted operating margin for the group of nine traditional asset managers we cover the past five years.

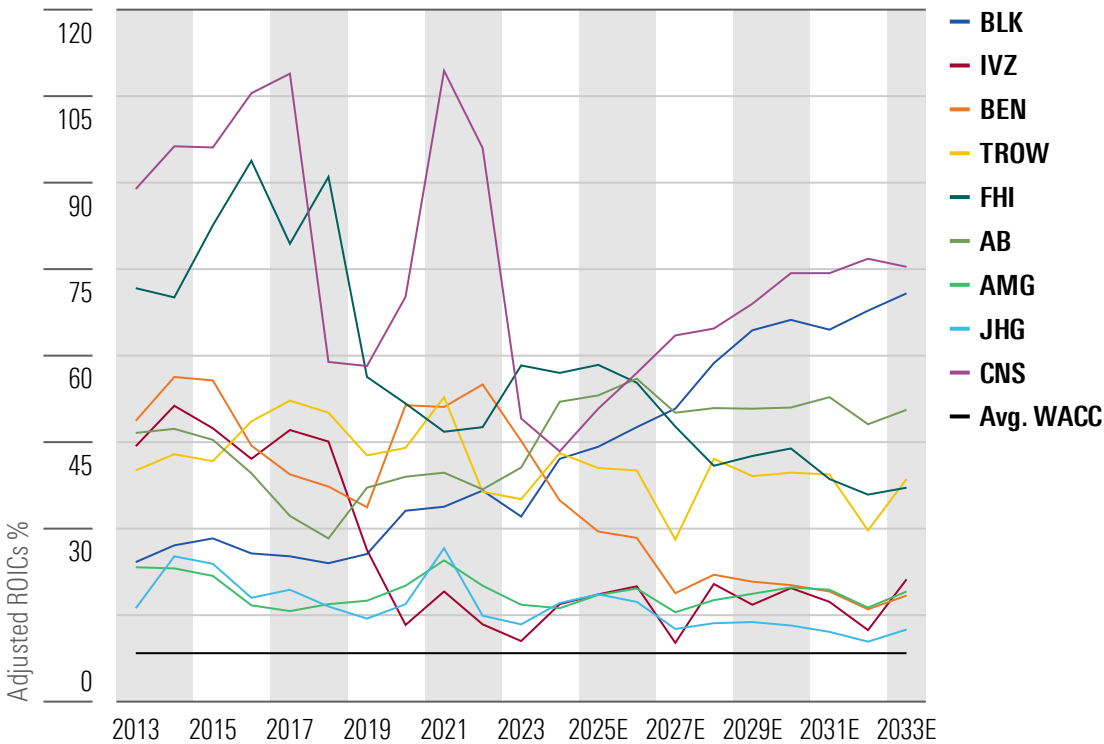
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Cash Flow Stability and Asset Stickiness Are More Important Differentiators Than ROICs for Asset Managers

With the business of asset management requiring little in the way of capital investment, the ROICs produced by individual companies can be extremely high and volatile, so being able to discern which firms are likely to not only generate excess returns but can do so with relatively little variance (which can be a difficult task for an industry that is so heavily tied to the vagaries of the equity and credit markets) is far more useful when assessing the width and sustainability of the economic moats for these companies.

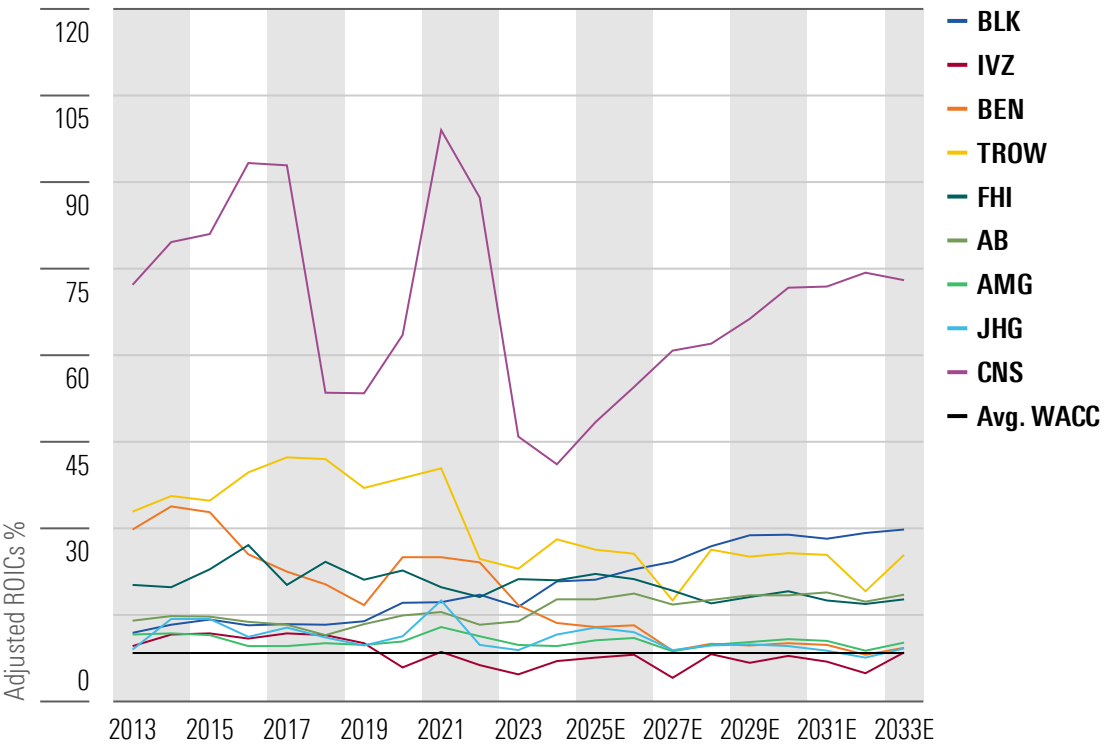
Stable ROICs With Lower Excess Returns Can Be a More Desirable Attribute

Annual Adjusted ROICs for Traditional Asset Managers—2013-33E



Most of Our Coverage Has Used Mergers and Acquisitions to Expand Their Reach

Annual ROICs with Goodwill for Traditional Asset Managers—2013-33E



Industry Basics: Alternative-Asset Managers

Investors should focus on fundraising and redemptions, as well as market exposure, relative performance, fee compression, and operating leverage.

Fundraising and Realizations Are the Lifeblood of the Alternative-Asset Managers

With redemption rates being extremely low for the alternative-asset managers, firms with better fundraising and deployment efforts results can generate above-average levels of organic AUM growth. Category scale and historical performance play a role in those fundraising and deployment efforts, as well as our future forecasts. With more variable costs in their business models, most alternative-asset managers have less operating leverage than the majority of the traditional asset managers, which is beneficial in more volatile markets

Key Things to Focus on With the Alternative-Asset Managers

The alternative-asset managers have enjoyed something of a "golden era of growth" as institutional and high-net-worth investors have increased their allocation to alternative products.

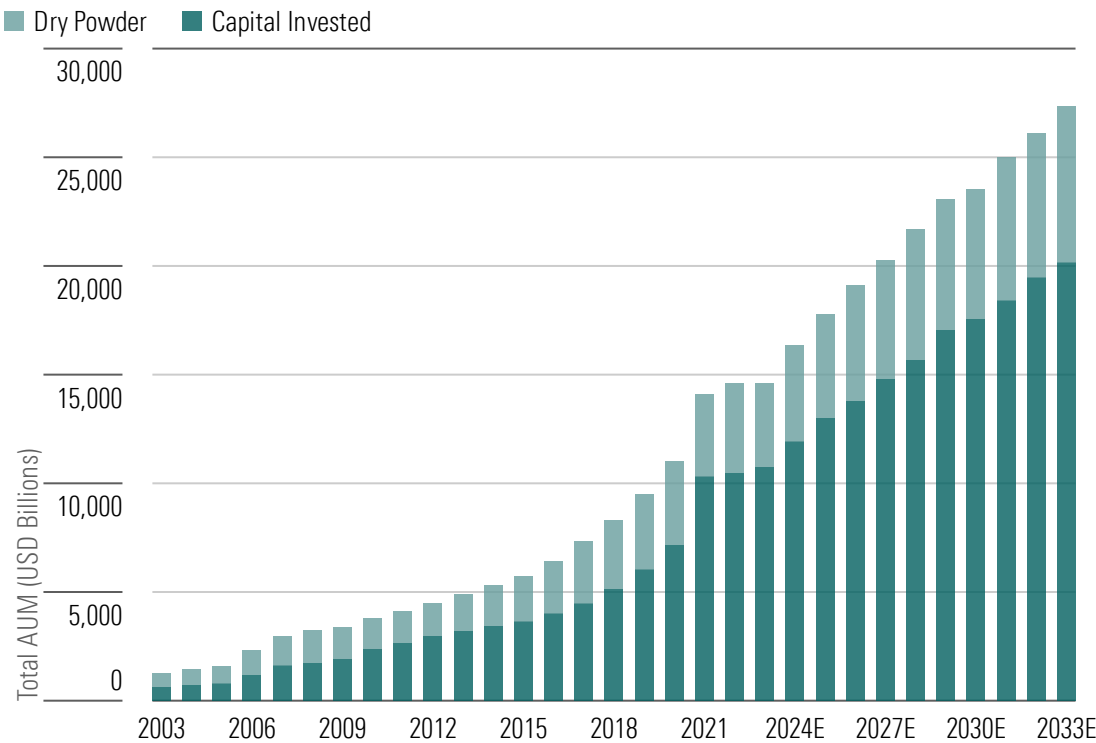
Fundraising / Realizations	Segment Exposure / Relative Performance	Fee Rates / Performance Fees	Operating Margins / Operating Leverage
Historical Fundraising / Realization Trends	AUM Diversification by Alternative Segment	Base Fee Levels	Fixed / Variable Costs
Manager Dispersion	Historical Relative Performance	Fee Compression History	Operating Leverage
% of Capital Dedicated to Private Markets	Forward 10-Yr Forecasts	Fee Competition	Historical Margin Levels
		Performance Fees	Relative Margin Position

The Market for Alternative Assets Has Expanded on Heightened Demand and Better Product Offerings

Demand for alternative assets has been robust the past decade, rising from \$4.9 trillion (including \$1.7 trillion in dry powder) at the end of 2013 to \$14.6 trillion (\$3.8 trillion of dry powder) at the end of 2023, with 2017-22 being a strong period for fundraising.

Total AUM Dedicated to Private Capital Markets (USD Billions) — 2003-33E

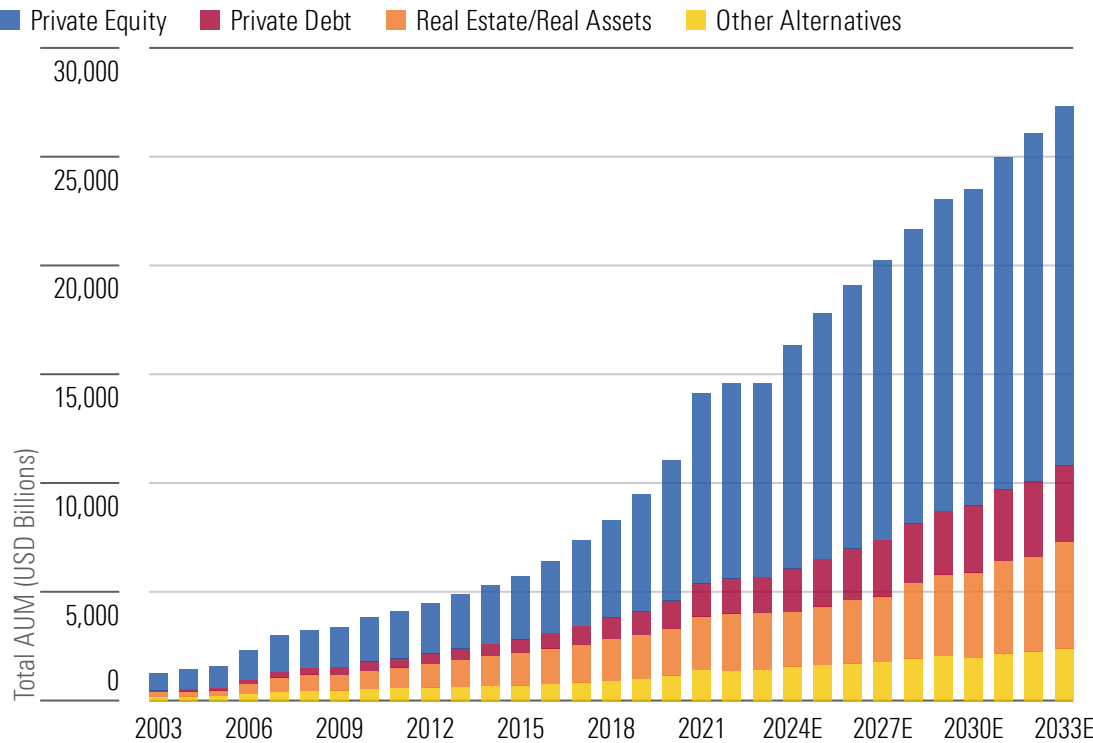
The market for alternative assets has expanded dramatically over the past two decades.



Given the track record of returns generated by buyout, growth/expansion, and venture capital funds relative to other alternative-asset segments, it has not been surprising to see the private equity category grabbing the lion's share of fundraising and invested capital.

Private Capital Total AUM by Main Product Segment (USD Billions) — 2003-23E

Private equity continues to represent the lion's share of alternative investment products.



Sources: PitchBook and Morningstar equity research data and estimates. Data as of Nov. 15, 2024. Total AUM includes both capital invested (known as fee-earnings AUM) and dry powder.

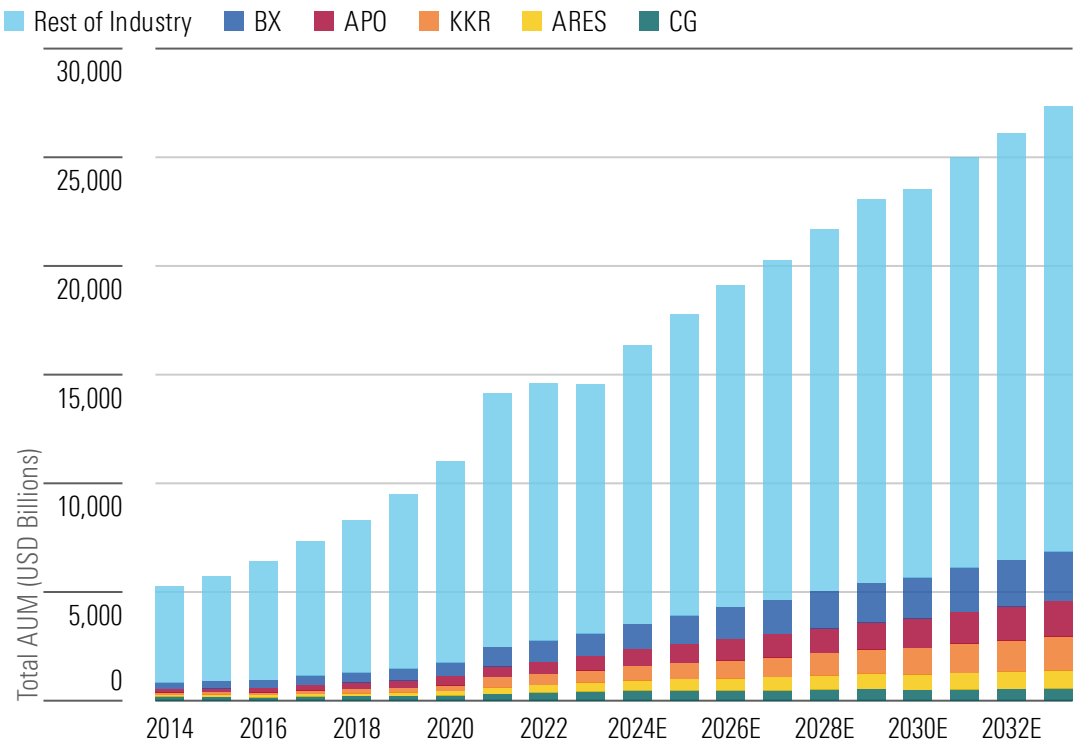
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Size Has Benefits in Alternative Assets as the Five Largest Players Continue to Expand Their Share

The market for alternative-asset management is quite fragmented, with the five largest stand-alone firms—Blackstone, Apollo, KKR, Ares, and Carlyle Group—accounting for 21% of the market on a total AUM basis at the end of 2023 (up from 16% in 2014).

Total AUM of Largest Stand-Alone Alternative Managers and Industry—2014-33E

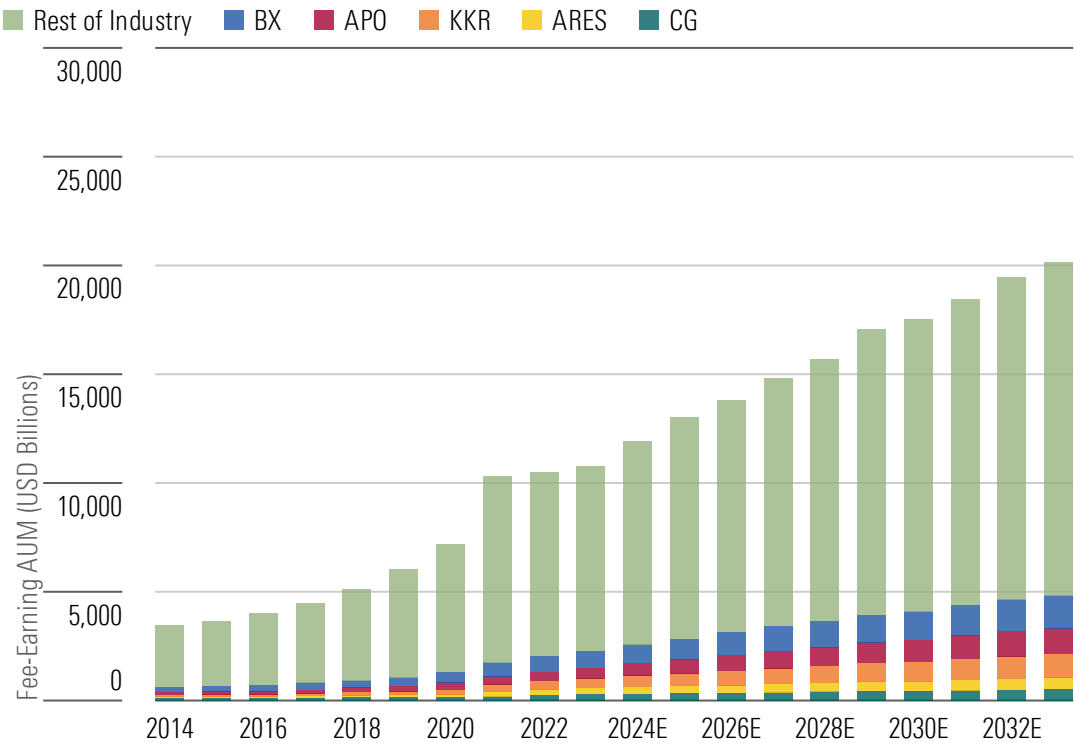
Blackstone continues to expand its total AUM at a faster rate than its closest peers.



The five largest stand-alone publicly traded firms, which accounted for 18% of fee-earning AUM in 2014, lifted their portion of total industry fee-earning AUM to just 21% at the end of 2023 even as they dominated fundraising efforts during the past decade.

Fee-Earning AUM of Stand-Alone Alternative Managers and Industry—2014-33E

Higher levels of fee-earning AUM allow Blackstone to reinvest at higher rate than peers.



Sources: PitchBook and Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

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Fundraising for Private Capital Funds Has Been Robust During Much of the Past Decade

Much of the growth and maintenance of alternative AUM levels (even during periods of market disruption like we’ve seen at different times during the past decade) has come from a combination of solid fundraising and managing investment products with meaningfully higher switching costs than see in more traditional asset classes.

During 2014-23, the alternative asset industry raised more than \$12.7 trillion through fundraising efforts, with the bulk of that capital being picked up by private equity (\$4.6 trillion) and venture capital (\$2.3 trillion) funds (which are generally combined into the private equity category).

While we’ve seen strong fundraising results from private credit/debt funds the past five years, the category has still trailed the private equity category, picking up \$1.3 trillion (and \$2.1 trillion) in capital during 2019-23 (2014-23).

And while fundraising has trailed off some for the real estate and real assets segments the past couple of years, the former category raised \$1.4 trillion during 2014-23, while the latter category picked up \$1.2 trillion in capital.

Treemap Highlighting Cumulative Fundraising by Alternative Asset Segments—2014-23

The private equity segment (including venture capital funds) raised more capital than all other segments combined.

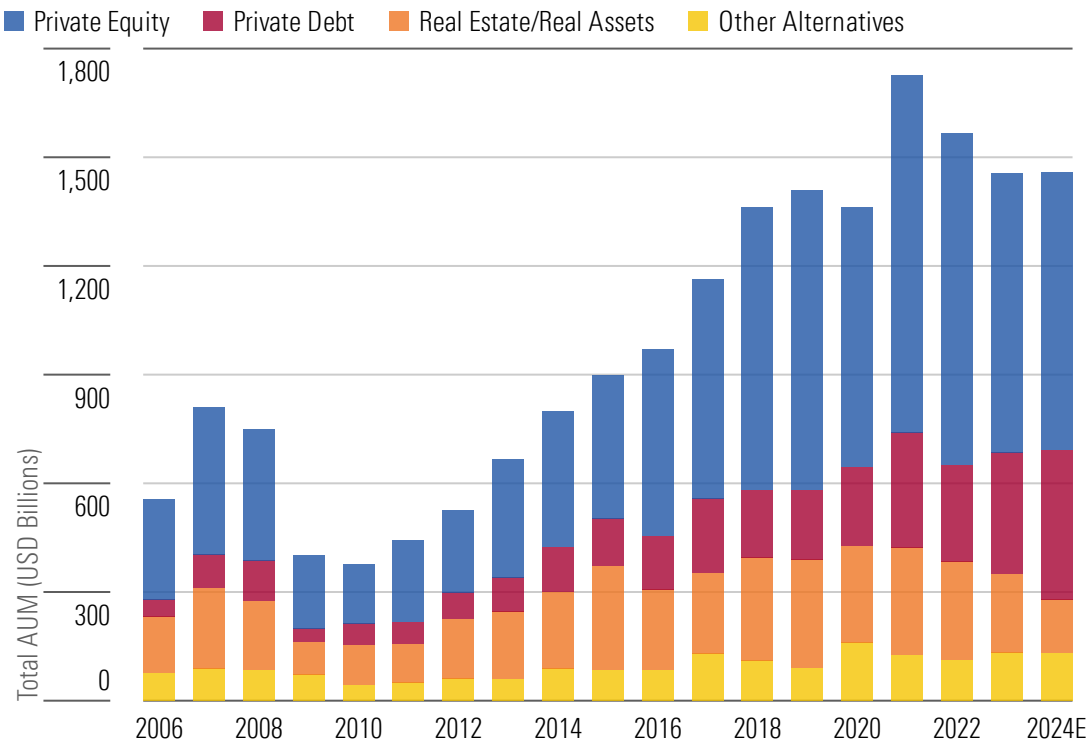


The Largest Alternative-Asset Managers Have Captured an Increasingly Larger Piece of the Fundraising Pie

Private equity has led annual fundraising efforts for the alternative-asset managers in terms of capital raised at the strategy level, accounting for 53% of total capital raised on average annually during 2014-23. Real estate/real assets were a distant second at 21%.

Private Capital Raised Annually by Major Product Category—2006-24E

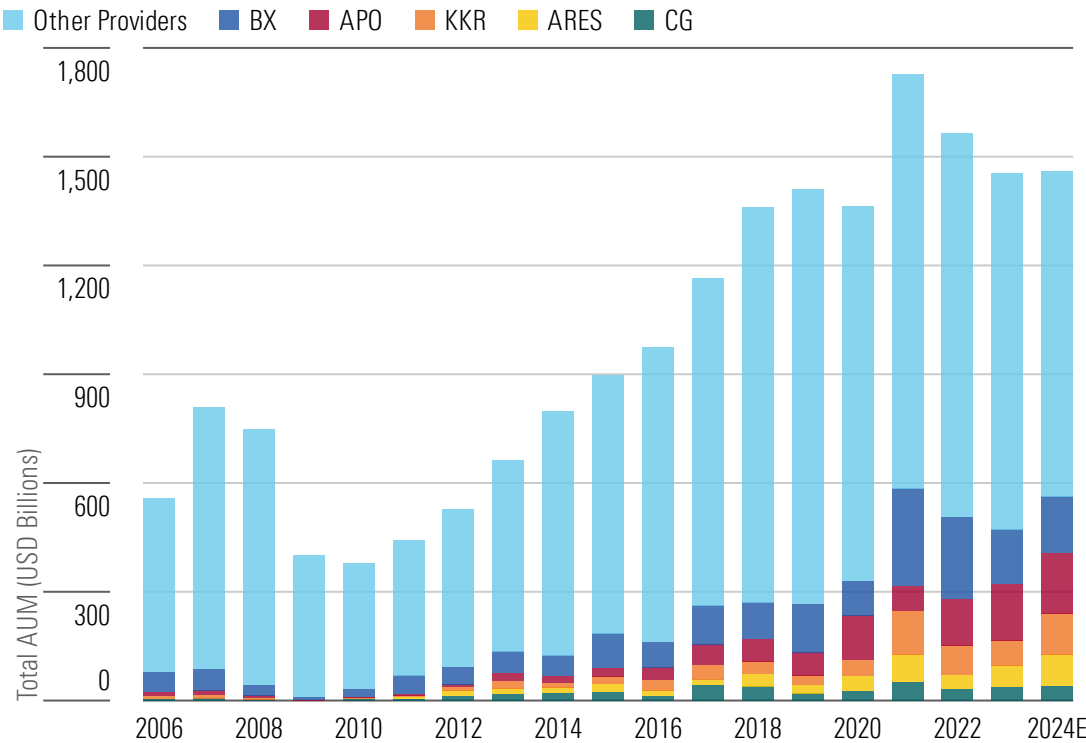
The private equity segment continues to raise most of the industry’s capital annually.



Close to a quarter of the fundraising that occurred during 2014-23 was driven by the five largest stand-alone publicly traded alternative-asset managers. That figure jumped to 28% of industrywide fundraising when looking at 2019-23 and was nearly 33% in 2023.

Private Capital Raised Annually by Largest Alternative-Asset Managers—2006-24E

The five largest alternative-asset managers have been grabbing a larger piece of the pie.



Sources: PitchBook and Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

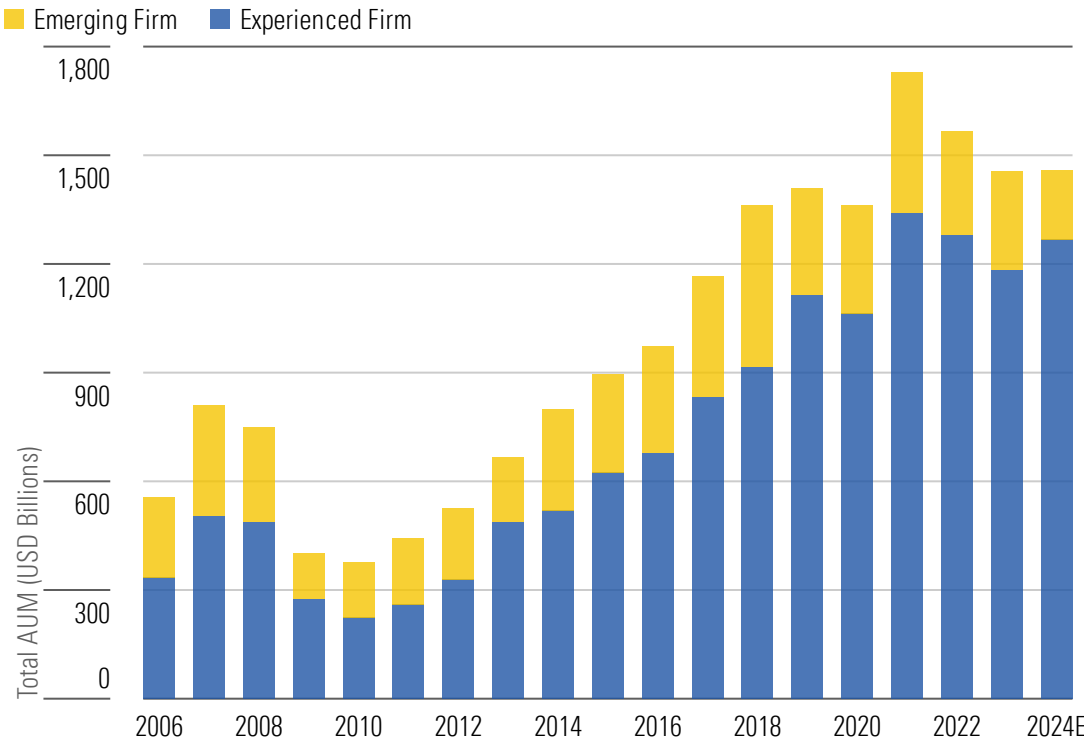
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Private Capital Fundraising Has Favored Established Managers With Meaningful Scale in Product Segments

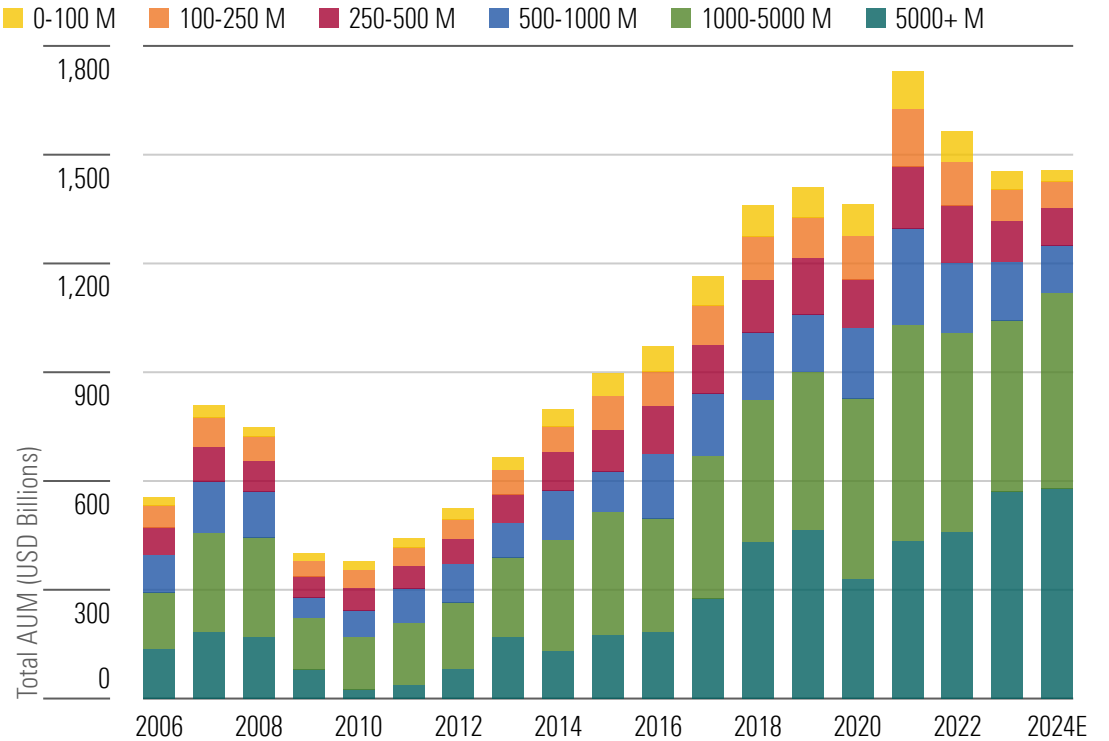
The fundraising market has faced headwinds during 2022-24, especially for firms not raising mega-funds with more than \$5 billion in total AUM and a “name brand” attached to them, with 83% of capital raised during the period going to experienced managers.

Just over 60% of annual fundraising has been generated by funds with \$1-\$5 billion in AUM or by "mega-funds" with more than \$5 billion in AUM the past decade. That figure rose to 64% during 2019-23, 68% during 2022-23, and 74% during 2023-24.

Private Capital Raised Annually by Manager Experience—2006-24E
Investors prefer working with established managers with brand recognition and scale.



Private Capital Raised Annually by Size of Fund (in USD Millions)—2006-24E
Funds with \$1 billion or more in AUM continue to grab the lion's share of new capital.



Sources: PitchBook and Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

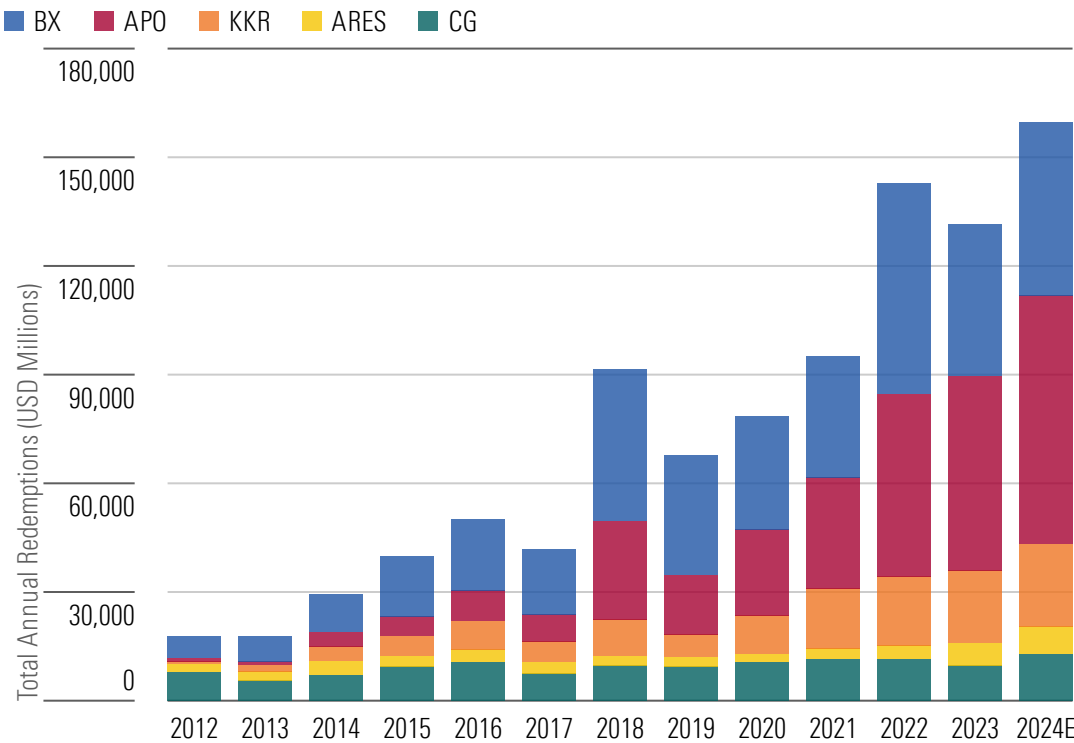
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Realizations and Redemptions Provide Additional Insight Into the Effectiveness of a Manager's Operations

While redemptions and realizations will lower the amount of total AUM and fee-earning AUM held by an alternative-asset manager, thereby reducing income from base management fees, the latter are preferable as realizations reflect realized gains that are being distributed back to investors, which come with realized performance and incentive fees. Product mix and fund age play a role here as well as funds with shorter lockup periods (like private debt and hedge funds) have higher redemptions, while older funds see more realization activity.

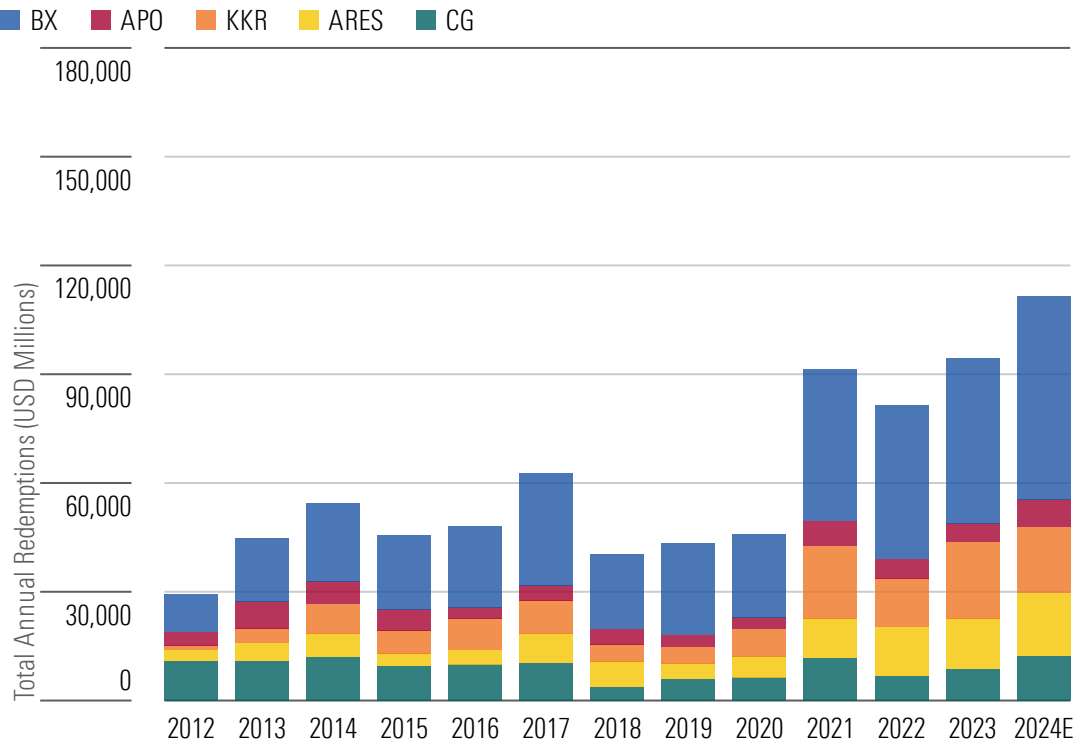
Annual Redemptions from Fee-Earning AUM for Five Largest Managers—2012-24E

Redemptions can be higher for firms with scale and shorter lockup periods for funds.



Annual Realizations from Fee-Earning AUM for Five Largest Managers—2012-24E

Realizations are driven by both fund age and state of the equity and credit markets.



Sources: PitchBook and Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

See Important Disclosures at the end of this report.

Consistently Solid Rolling One-Year Horizon IRRs Have Helped Managers With Fundraising and Redemptions

The colorful pattern in this "quilt chart" for alternative-asset management categories illustrates how unpredictable the ups and downs of the different markets can be. Rising rates, high inflation, and reduced growth expectations globally created a difficult environment for most alternative-asset management categories during 2022-24, with one-year horizon IRRs coming back down to earth after a decade of strong results for most fund groups. The chart also exemplifies why private equity continues to represent the lion's share of fundraising and AUM.

Global Private Capital Returns Have Outstripped the Performance Generated by More Traditional Asset Classes During Much of the Past Decade

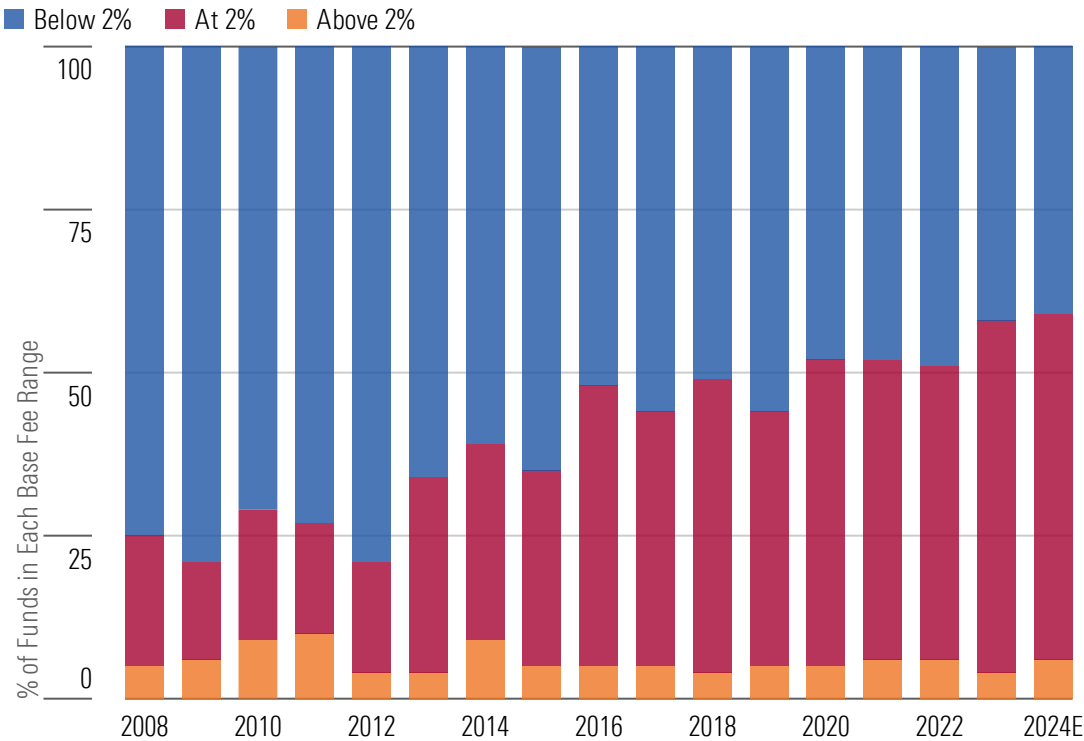
Rolling One-Year Horizon IRRs by Alternative-Asset Strategy — 2014-23 and First Quarter of 2024

Highest Return %	20.4	12.7	12.2	20.6	17.5	19.7	40.0	53.5	10.0	10.9	4.2		16.3	Private Equity: Buyout	
	13.1	13.5	9.9	16.6	18.9	17.2	34.6	50.1	7.7	10.9	4.6		15.6	Private Equity: Growth-Expansion	
	13.0	12.5	9.2	15.8	16.3	16.3	28.7	44.1	5.2	10.6	4.0		13.4	Private Equity: Venture Capital	
	12.8	11.8	8.9	15.4	14.7	11.9	26.9	44.0	4.5	7.1	2.7		13.4	Real Estate	
	12.6	11.2	8.8	13.3	11.6	11.5	18.7	37.3	0.6	6.0	2.1		13.2	Infrastructure	
	12.6	11.0	8.7	12.8	10.5	10.2	10.4	34.2	-0.6	5.4	1.9		12.8	Private Debt	
	12.5	10.1	7.8	10.5	10.3	8.4	6.9	26.3	-5.2	0.8	1.5		10.2	Fund of Funds	
	12.5	9.9	7.3	9.4	7.1	8.1	5.0	15.9	-6.4	-4.2	0.0		9.4	Secondaries	
	12.0	4.6	-0.1	8.3	5.8	7.2	4.9	15.6	-16.9	-4.7	0.0		8.6	Private Capital	
Lowest Return %	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	2014-23			

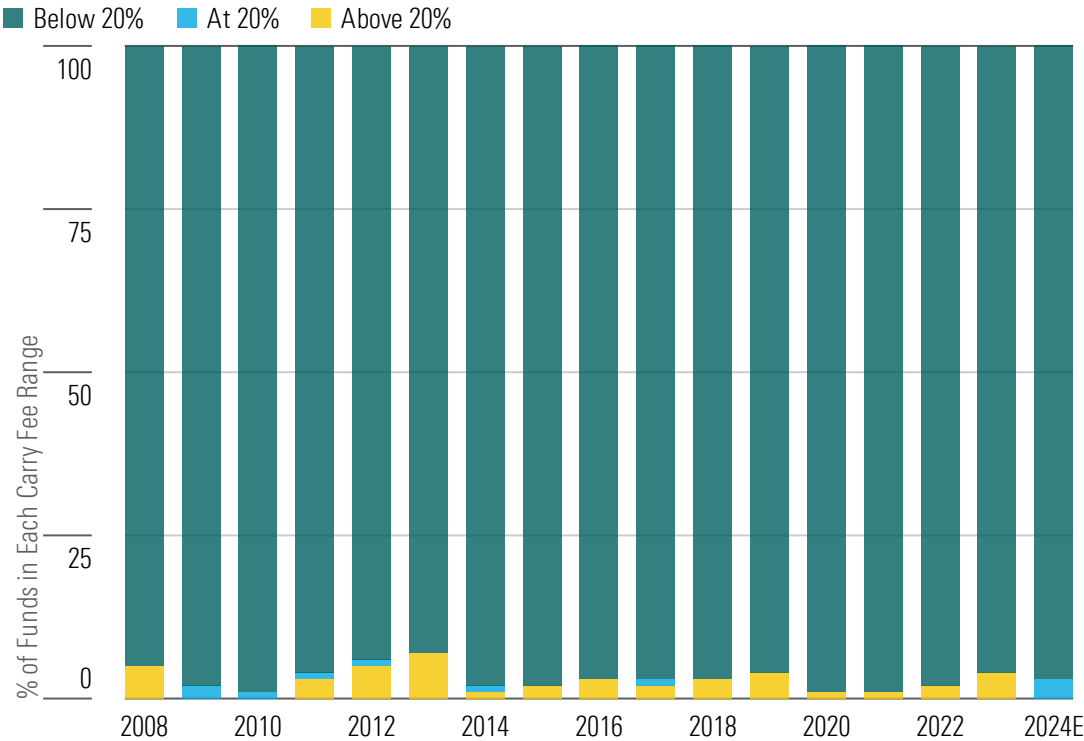
Alternative-Asset Managers Not Seeing as Much Pressure on Fees as Traditional Asset Managers

Aside from the pressure on fees from institutional clients that followed the 2008-09 financial crisis, the alternative-asset managers have not seen as much pressure on base management fees the past two decades as the traditional asset managers have experienced from the growth of passive products. By the end of 2016, many of the managers that offered up fee reductions during and after the crisis have reverted to past fee rates. Meanwhile, carry fees were relatively stable with most rated funds holding rates below 20% the past two decades.

% of Rated Funds in Each Base Management Fee Range Annually—2008-24E
Base management fee rates for private capital funds have eroded some the past decade.

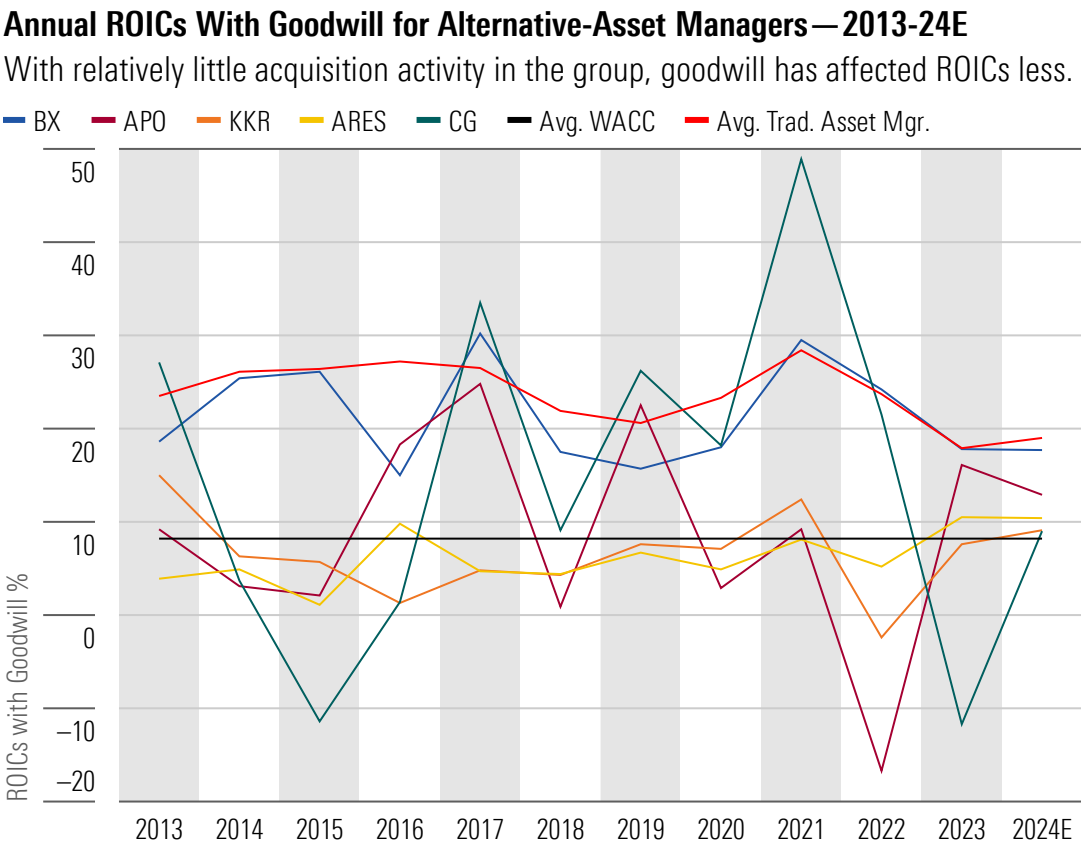
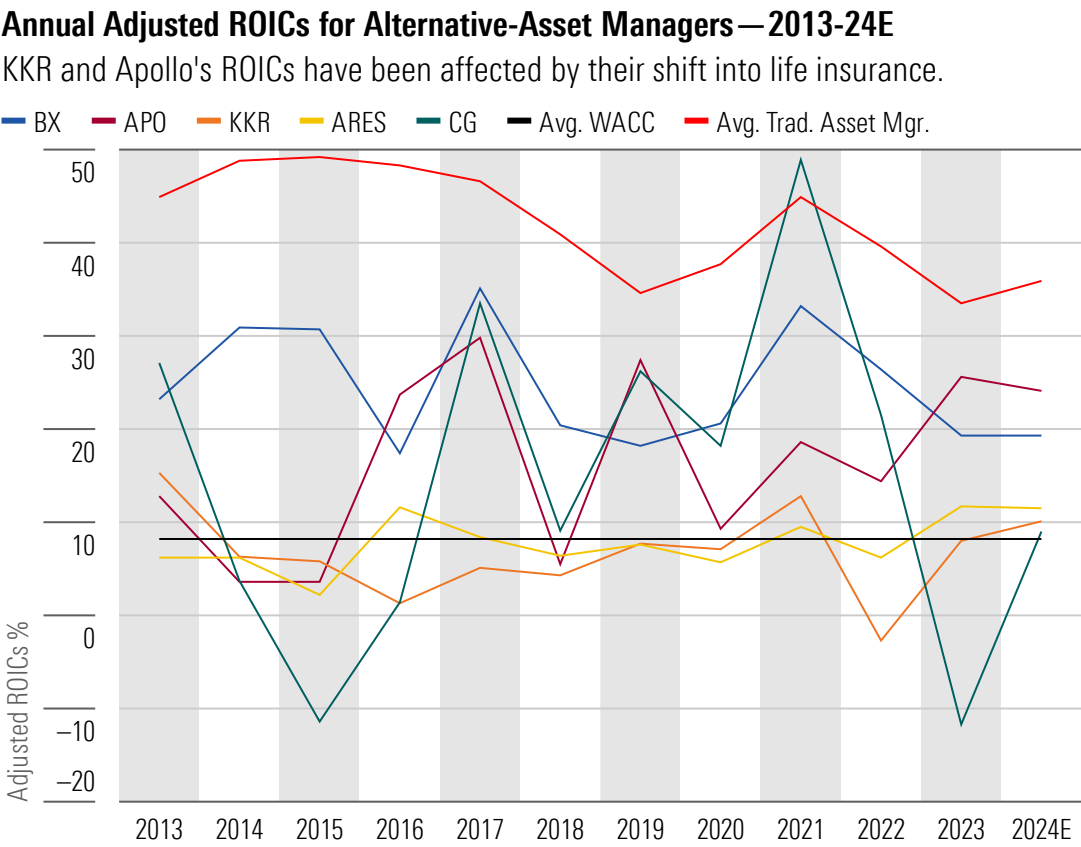


% of Rated Funds in Each Carry Fee Range Annually—2008-24E
Carry fees have generally been below 20% for most rated funds the past two decades.



Cash Flow Stability and Asset Stickiness Are More Important Differentiators Than ROICs for Asset Managers

With the business of asset management requiring little in the way of capital investment, the ROICs produced by individual companies can be extremely high and volatile. As such, the ability to discern which firms are likely to not only generate excess returns but can do so with relatively little variance (which can be a difficult task for an industry so heavily tied to the vagaries of the equity and credit markets) is far more useful when assessing the width and sustainability of the economic moats for these companies.



Sources: Company reports, Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

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Outlook: Traditional Asset Managers

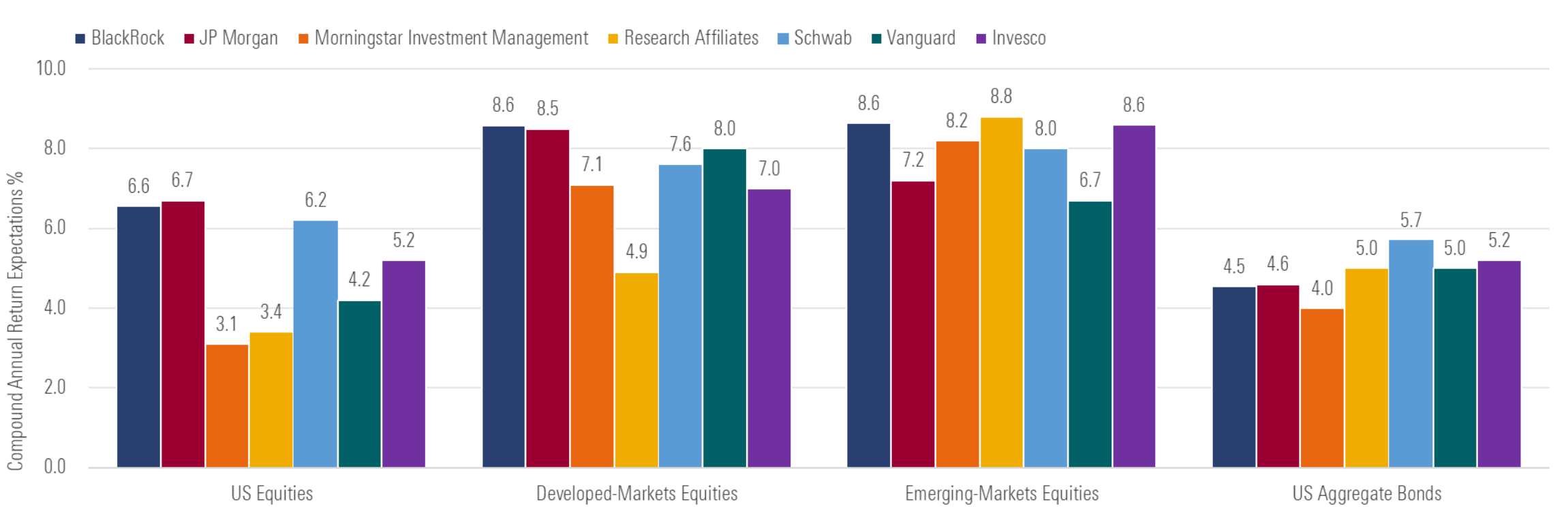
Continued outflows from actively managed funds will hamper AUM growth at the traditional asset managers, making them more reliant on market gains.

The Strong Market Recovery During 2023-24 Is Having a Moderating Effect on Future Expected Returns

When forecasting future AUM levels for the traditional asset managers, we look to the 10-year forward forecasts for a multitude of categories generated by a handful of capital market prognosticators. This tends to inform the base case for our market forecasts, with each manager handicapped by how their own fund performance has stacked up against category returns historically. We expect return expectations for equities to come down some as more recent market activity is digested, while bond return forecasts will likely not change.

10-Year Asset Class Expected Returns for Select Market Categories

The timing of updates to long-term forecasts has left equity return expectations somewhat disjointed, while US aggregate bond return expectations have stayed consistent.



Source: BlackRock Long-Term Capital Market Assumptions (August 2024), JP Morgan 2025 Long-Term Capital Market Assumptions (September 2024), Morningstar Markets Observer (Q4 2024) – MIM Valuation-Implied Returns, Research Affiliates Expected Return Model (October 2024), Schwab 2024 Long-Term Capital Market Expectations (January 2024), Vanguard Capital Markets Model (June 2024), and Invesco 2024 Long-Term Capital Market Assumptions (Q3 2024 Update). See Appendix for more details.

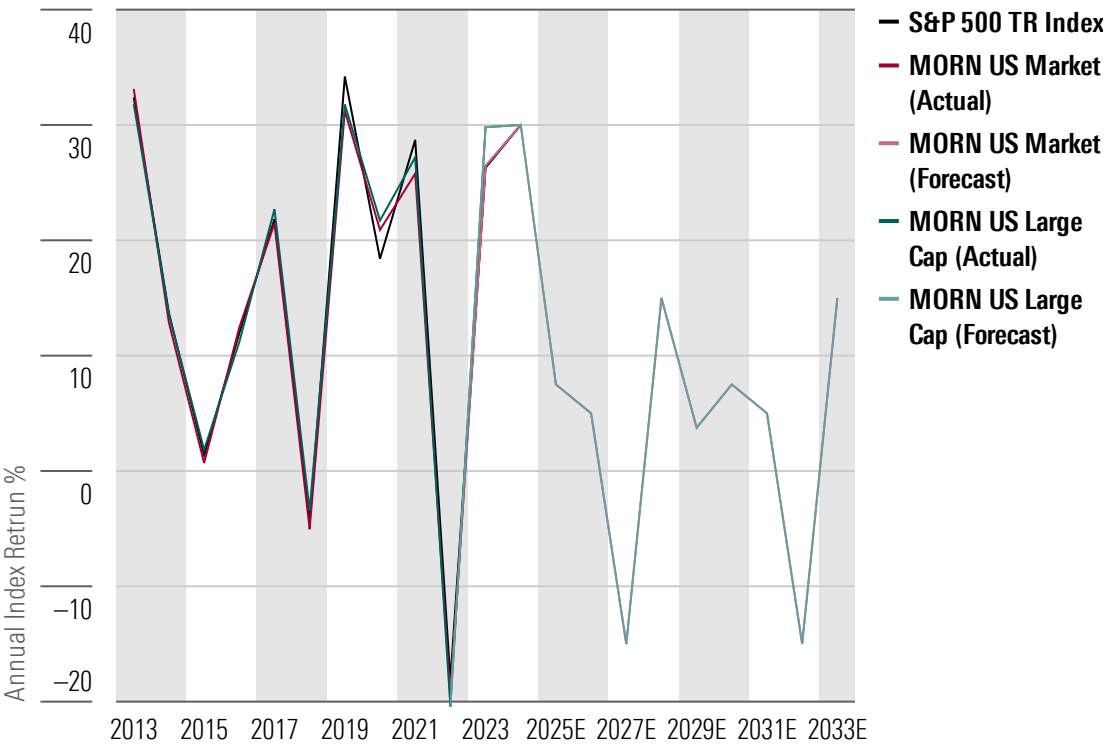
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Volatility Is Expected to Continue in Both the Equity and Credit Markets as We Move Forward

The traditional asset managers we cover derive around half their AUM on average from predominantly large-cap equity products, so we tend to forecast their future equity performance relative to expected 10-year return projections for large cap equities.

Historical and Expected US Large-Cap Stock Market Returns—2013-33E

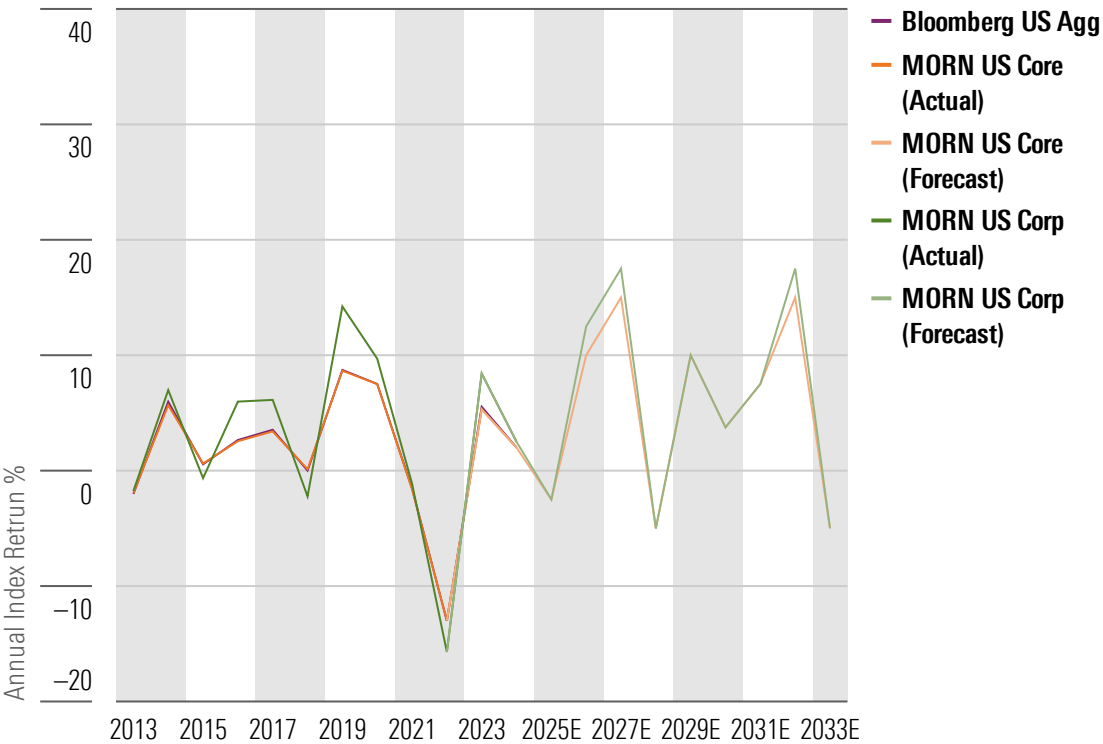
Despite several market selloffs, US equity returns have been largely positive.



The traditional asset managers also derive around a fifth of their AUM from fixed-income products, with both the US aggregate bond index and US corporate bond index serving as useful benchmarks when forecasting future expected returns for the category.

Historical and Expected US Aggregate and Corporate Bond Returns—2013-33E

Bond returns, meanwhile, have been a bit more sporadic the past five years.



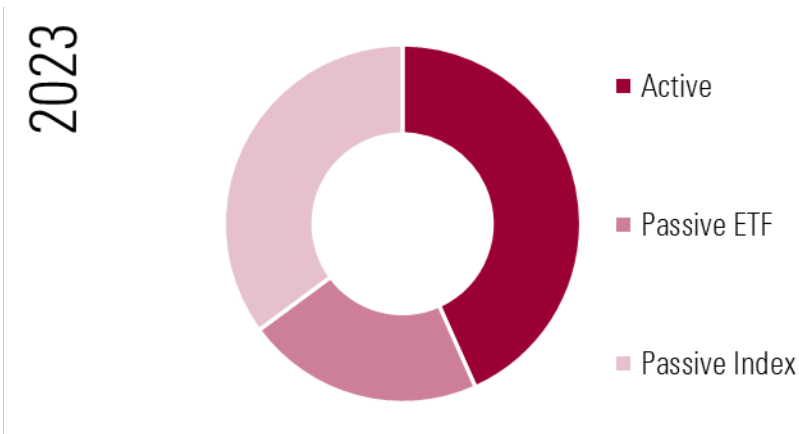
Source: Morningstar Direct. Data as of Nov. 15, 2024. First chart reflects the annual return performance of the S&P 500 TR Index, the Morningstar US Market TR Index, and the Morningstar US Large Cap Equity TR Index. The second chart reflects the performance of the Bloomberg US Aggregate Bond TR Index, the Morningstar US Core Bond TR Index, and the Morningstar US Corp. Bond TR Index.

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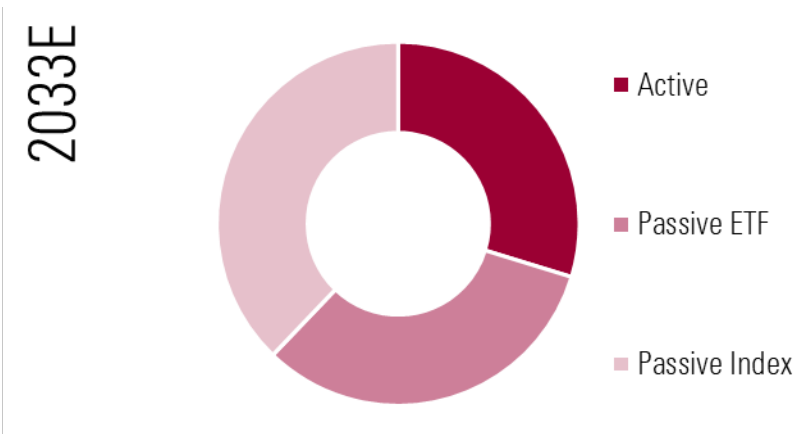
Continued Growth of Passive Will Pressure Flows, Fees, and Operating Profitability for Active Managers

Active equity funds have been heavily affected by the growth of passive products, with \$6.0 trillion and \$4.7 trillion, respectively, invested in passive US equity ETFs and US equity index funds at the end of 2023. We expect mid-single-digit organic AUM growth, as well as mid-single-digit equity market returns, to drive the level of assets in passive equity ETFs and equity index funds to \$15.6 trillion and \$12.2 trillion, respectively, at the end of 2033.

Active/Passive Dispersion of US Equity Funds—2023

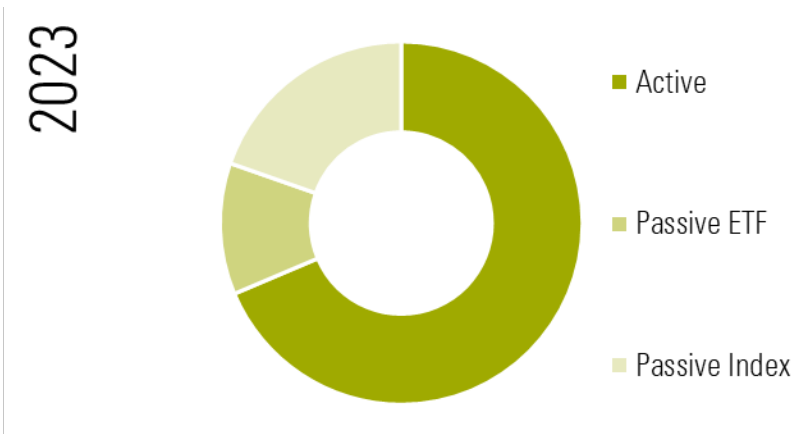


Active/Passive Dispersion of US Equity Funds—2033E

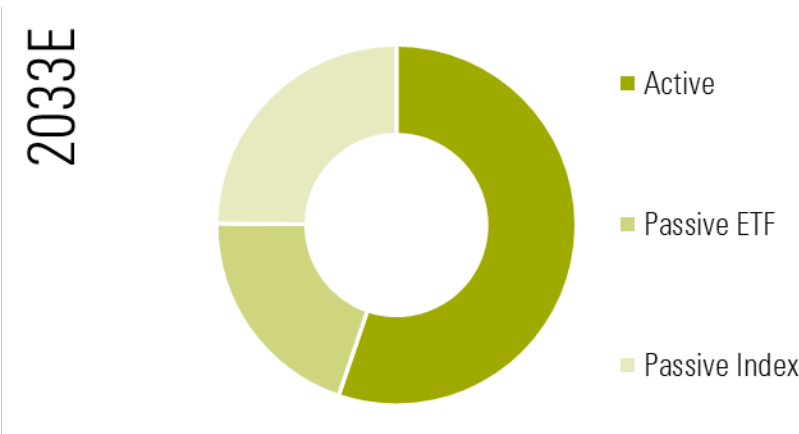


While the growth of passive bond ETFs and fixed-income index funds has trailed behind their equity counterparts, they were at \$1.3 trillion and \$1.0 trillion in AUM, respectively, at the end of 2023. We expect high-single to double-digit organic AUM growth, as well as mid-single digit bond market returns, to drive the level of assets in passive bond ETFs and fixed-income index funds to \$5.4 trillion and \$4.0 trillion, respectively, at the end of 2033.

Active/Passive Dispersion of US Bond Funds—2023



Active/Passive Dispersion of US Bond Funds—2033E

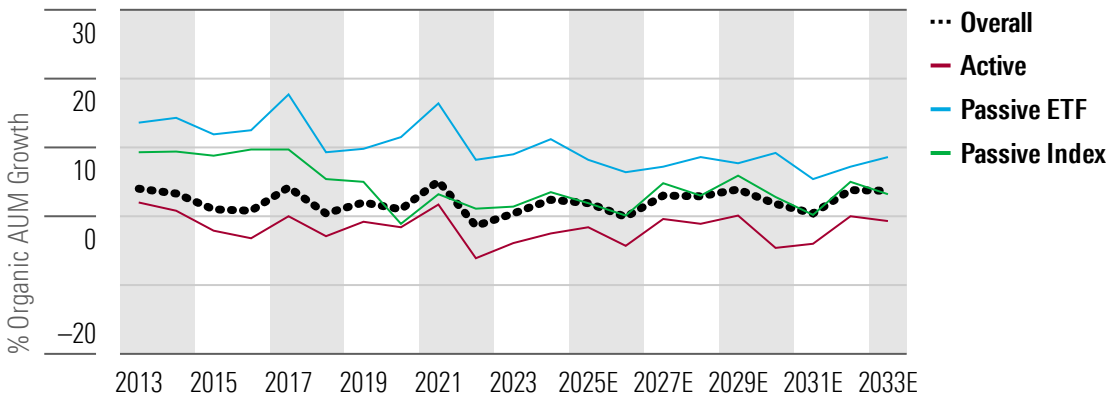


Sources: Morningstar Direct and Morningstar Research Services data and estimates. Data as of Nov. 15, 2024.

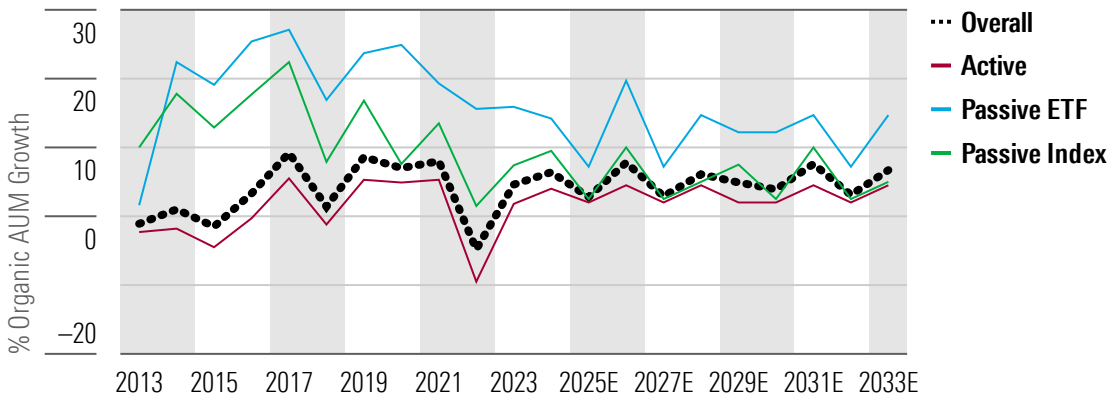
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As Passive Grows, Traditional Active-Fund Managers Continue to Struggle to Generate Positive Flows

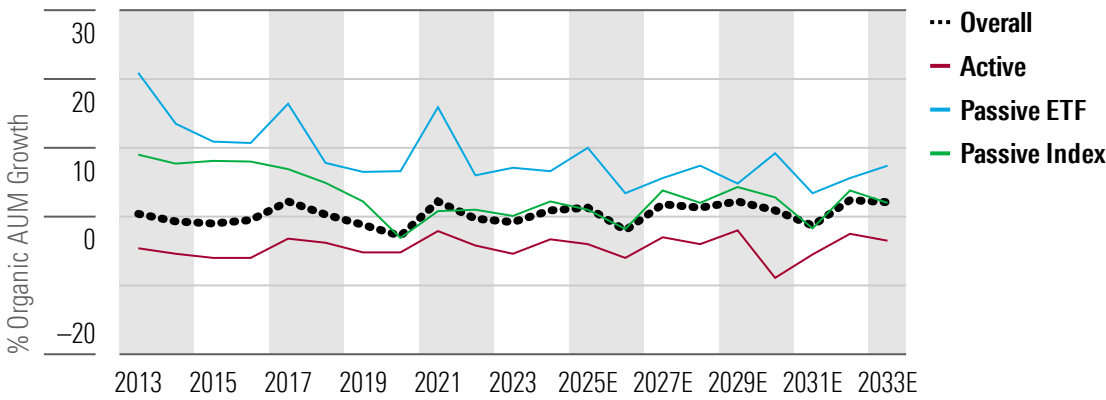
Overall Active Fund Flows Will Continue to Be Influenced More by Equity Flows



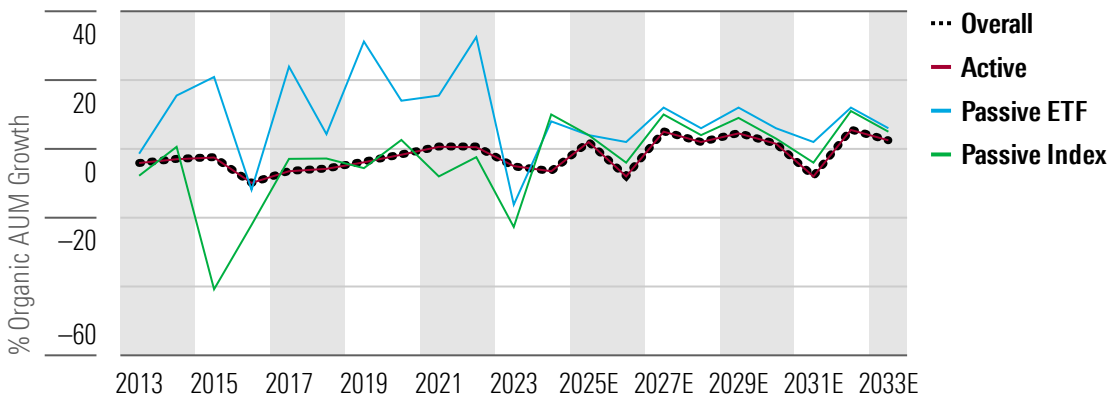
Active Bonds Fund Flows Have Yet to Be Supplanted by Passive Fund Offerings



Growth of Passive Products Continues to Negatively Affect Active Equity Flows



Allocation Fund Flows Are Driven More by Retirement Funds Than the Markets



Sources: Morningstar Direct U.S. ETF and open-end fund (excluding money market and funds of funds). Data as of Nov. 15, 2024.

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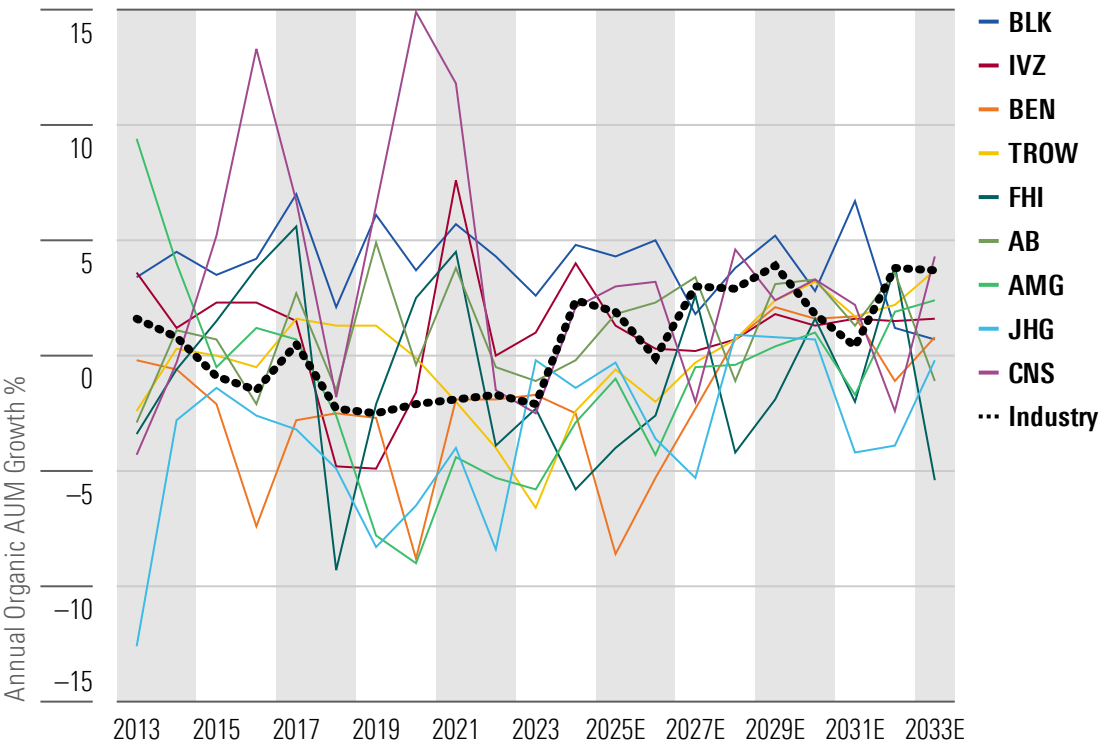
Continued Growth of Passive at the Expense of Active Will Leave More Asset Managers in Our Coverage Behind

The growth of passive products continues to leave more traditional asset managers behind, with only BlackRock outpacing the expected annualized organic AUM growth for the industry, as it will also benefit from the expansion of passive ETFs and index funds.

Going forward, we expect the average annual fee decline for firms in our traditional asset-management coverage to be 2.5% during 2024-33, compared with 2.0% on average annually the past decade, as the pressure on fees continues unabated.

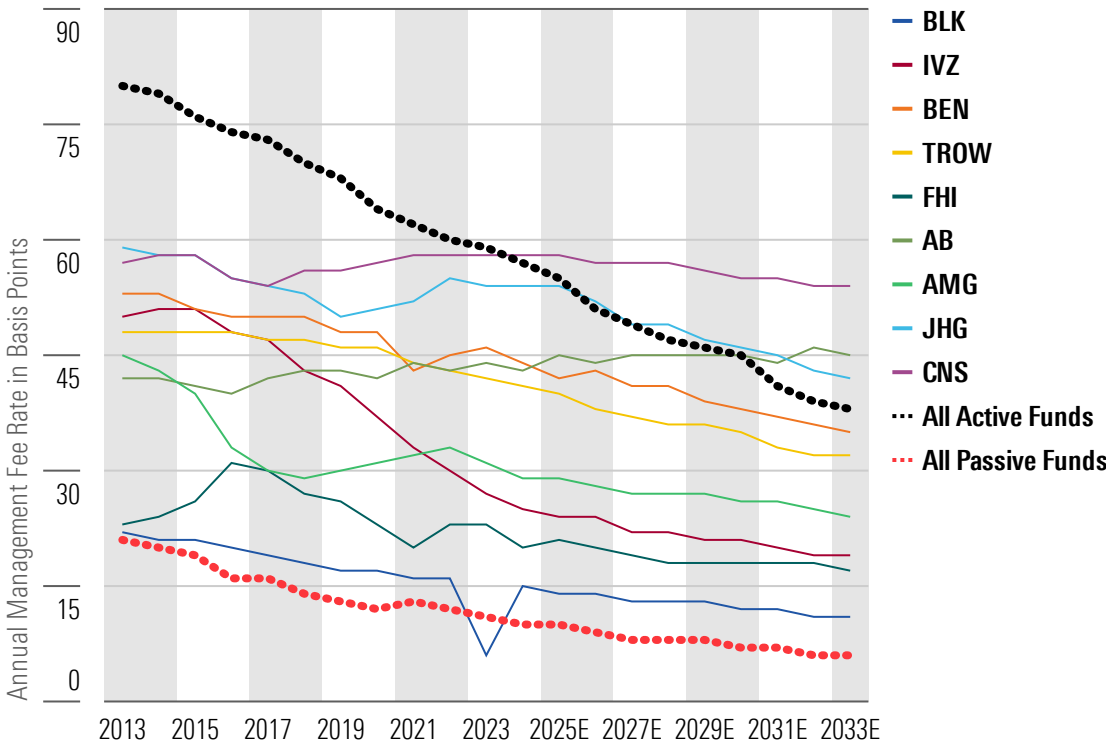
Annual Organic AUM Growth for Traditional Asset Managers—2013-33E

Only BlackRock has been able to consistently post positive organic AUM growth.



Annual Management Fee Rates for Traditional Asset Managers—2013-33E

Fee rates for our traditional asset managers have not declined as much as active funds.



Sources: Company reports, Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

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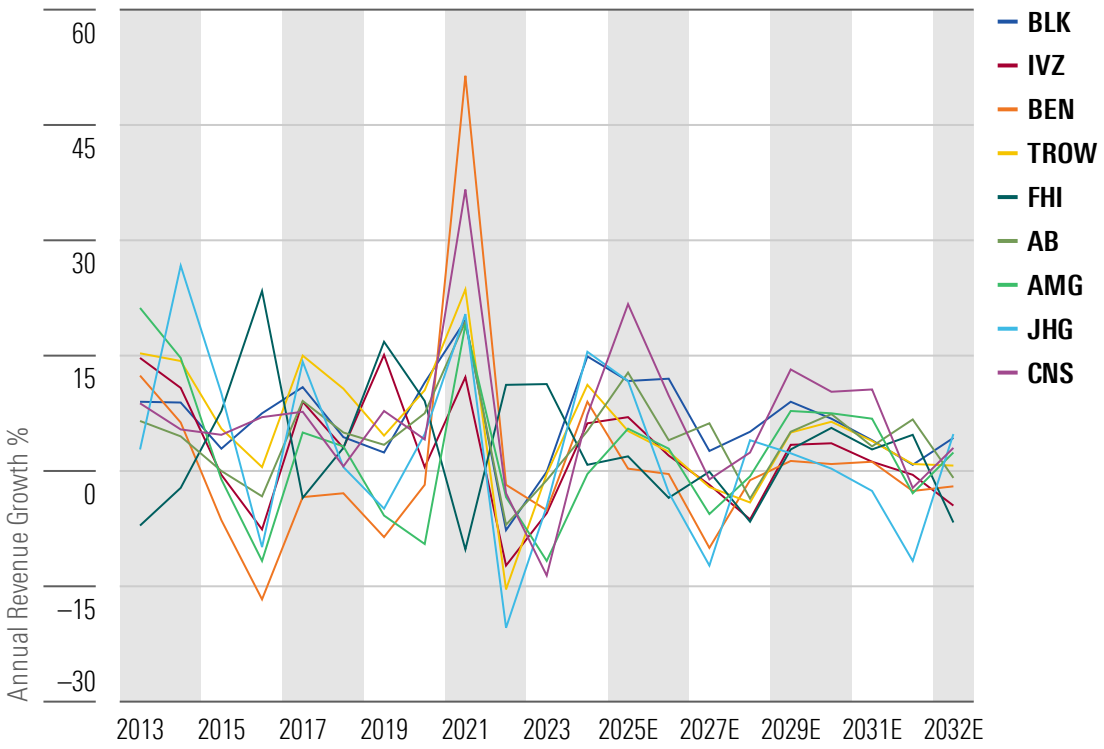
Revenue Growth and Profitability Will Continue to Be Stymied by Passive Growth and Ongoing Fee Compression

Revenue growth is a function of average AUM growth and changes in fee rates. With passive growth continuing to have an impact on active manager flows, and fees under pressure, we expect revenue growth to be somewhat muted over the next 10 years.

While the traditional asset managers have striven to reduce some of their fixed costs since the 2008-09 financial crisis, there is still a fair amount of operating leverage in their business models, which serves as a double-edged sword in down markets.

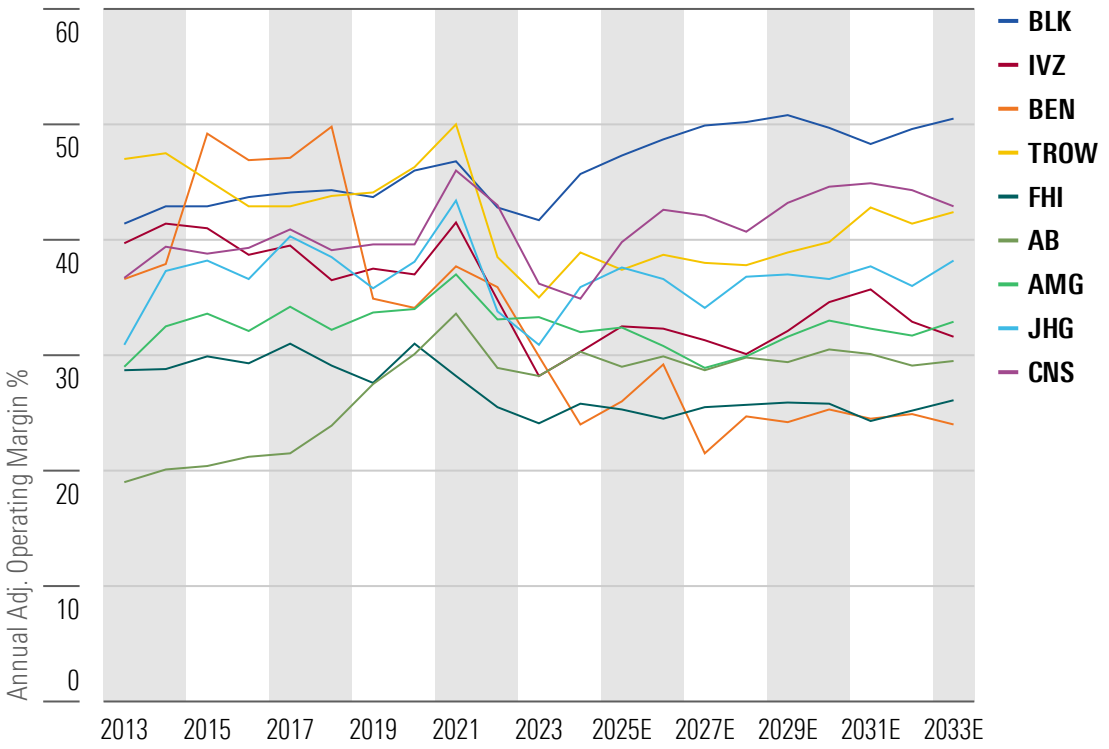
Annual Revenue Growth for Traditional US-Based Asset Managers—2013-33E

Passive growth and fee compression will limit revenue growth over the next decade.



Annual Adjusted Operating Margins for U.S.-Based Asset Managers—2013-33E

High levels of operating leverage work both ways for our coverage in volatile markets.



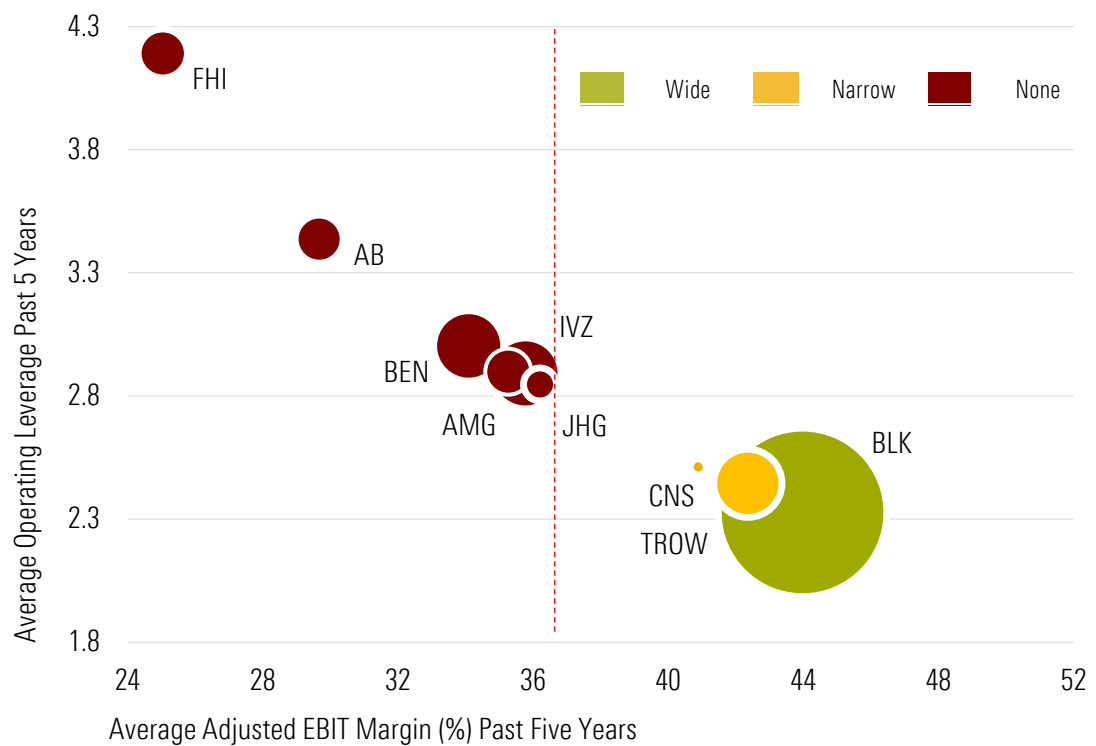
Sources: Company reports and Morningstar Research Services data and estimates. Data as of Nov. 15, 2024.

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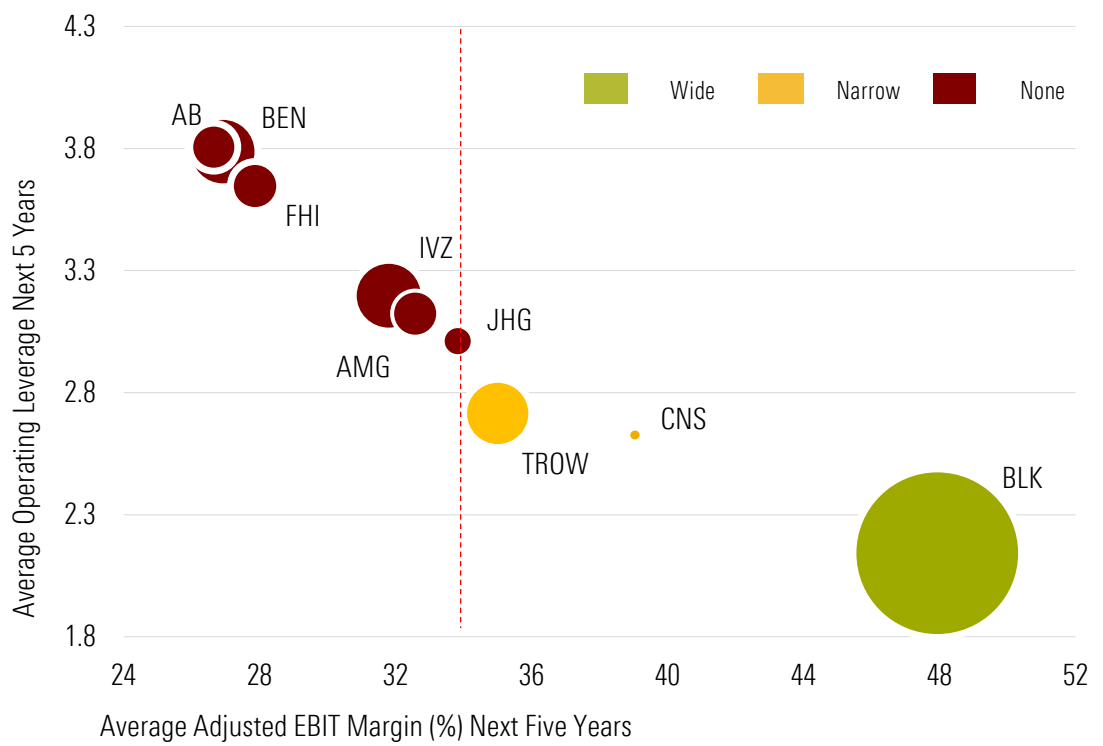
Firms With Lower Levels of Operating Leverage and Above-Average Margins Are Better Bets in the Long Run

While asset-management firms with greater amounts of AUM tend to have scale advantages, having more scale is not always a guarantee of higher levels of profitability, as T. Rowe Price continues to be more profitable than Invesco and Franklin Resources, which are similarly sized. In this business, which can be volatile, it also pays to stick with firms with above-average levels of operating profitability more stable firms with less operating leverage, making BlackRock the most attractive option, followed by Cohen & Steers and T. Rowe Price.

Scale, Operating Profitability, and Operating Leverage for US-Based Coverage
BlackRock, T. Rowe Price, and Cohen & Steers had best AUM Efficiency during 2019-23.



Scale, Operating Profitability, and Operating Leverage for US-Based Coverage
Only BlackRock stands out from an AUM Efficiency perspective during 2024-28E.



Source: Company reports, Morningstar Research Services. Data as of Nov. 15, 2024. Bubble chart reflects the size of each asset manager's operations (with bubbles reflective of average AUM levels during the past year) as well as their current moat designations (as denoted by the colors in the legend). The X and Y axes on the chart reflect average annual adjusted operating margins and average operating leverage during 2019-23 and 2024-28E. The red dotted line reflects the average annual adjusted operating margin for the group of nine traditional asset managers we cover the past five years.

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Outlook: Alternative-Asset Managers

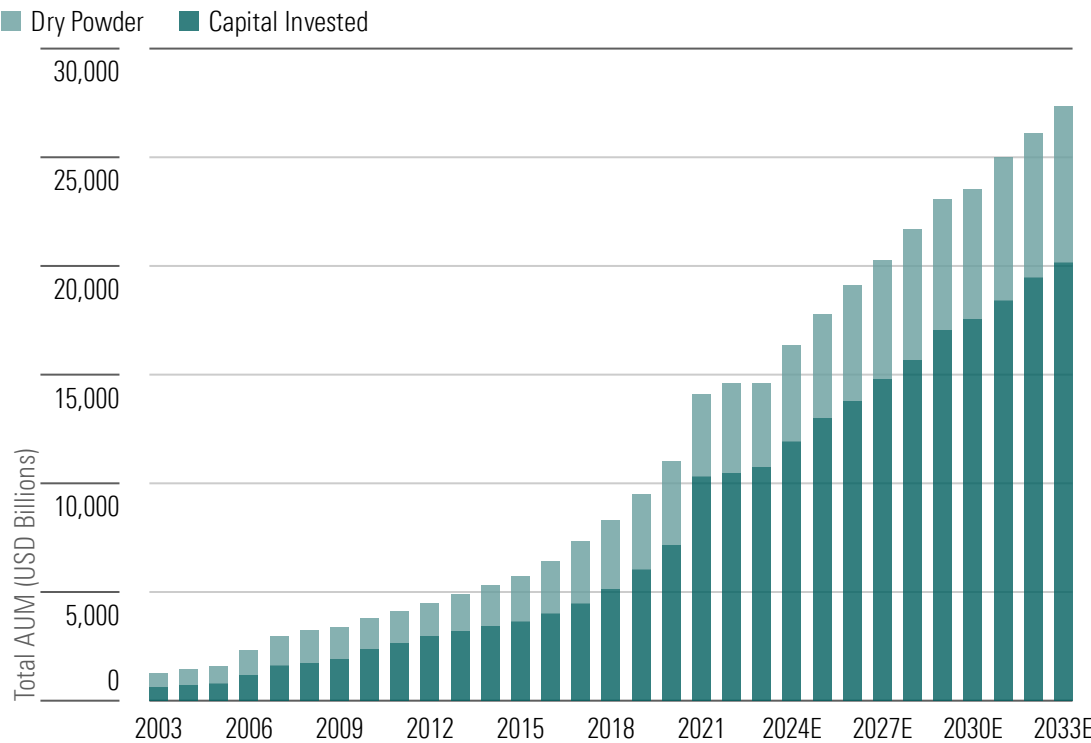
Ongoing demand for private markets and better-performing product offerings gives the alternative-asset managers a leg up over their traditional brethren.

Ongoing Demand and Better Products Giving the Alternative-Asset Managers a Leg Up Over Traditional Firms

With demand for alternative assets eventually maturing, we expect total AUM levels to increase close to 90% (or 6.5% on average annually) from \$14.6 trillion (with \$3.8 trillion in dry powder) at the end of 2023 to \$27.3 trillion (and \$7.2 trillion) at the end of 2033.

Total AUM Dedicated to Private Capital Markets (USD Billions) — 2003-33E

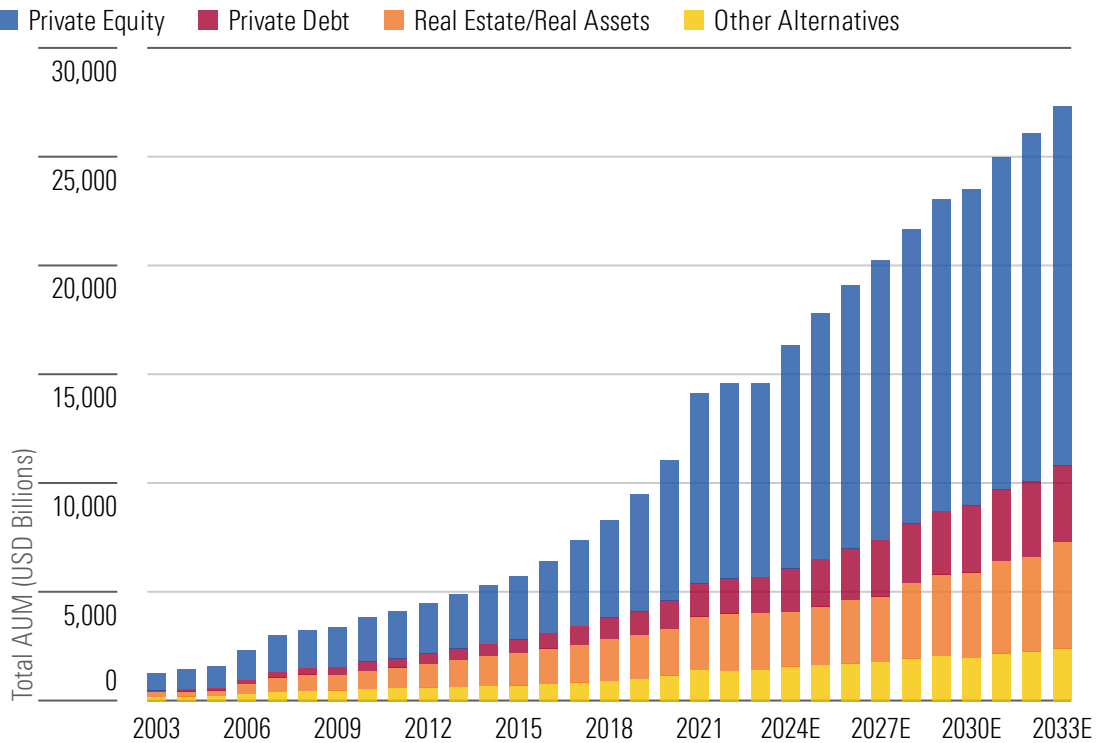
The market for alternative assets will continue to expand over the next decade.



Given the returns generated by buyout, growth/expansion, and venture capital funds relative to other alternative-asset segments, we expect the private equity category to continue to grab the lion's share of fundraising and invested capital going forward.

Private Capital Total AUM by Main Product Segment (USD Billions) — 2003-23E

Private equity continues to represent the lion's share of alternative investment products.



Sources: PitchBook and Morningstar equity research data and estimates. Data as of Nov 8, 2024. Total AUM includes both capital invested (known as fee-earnings AUM) and dry powder.

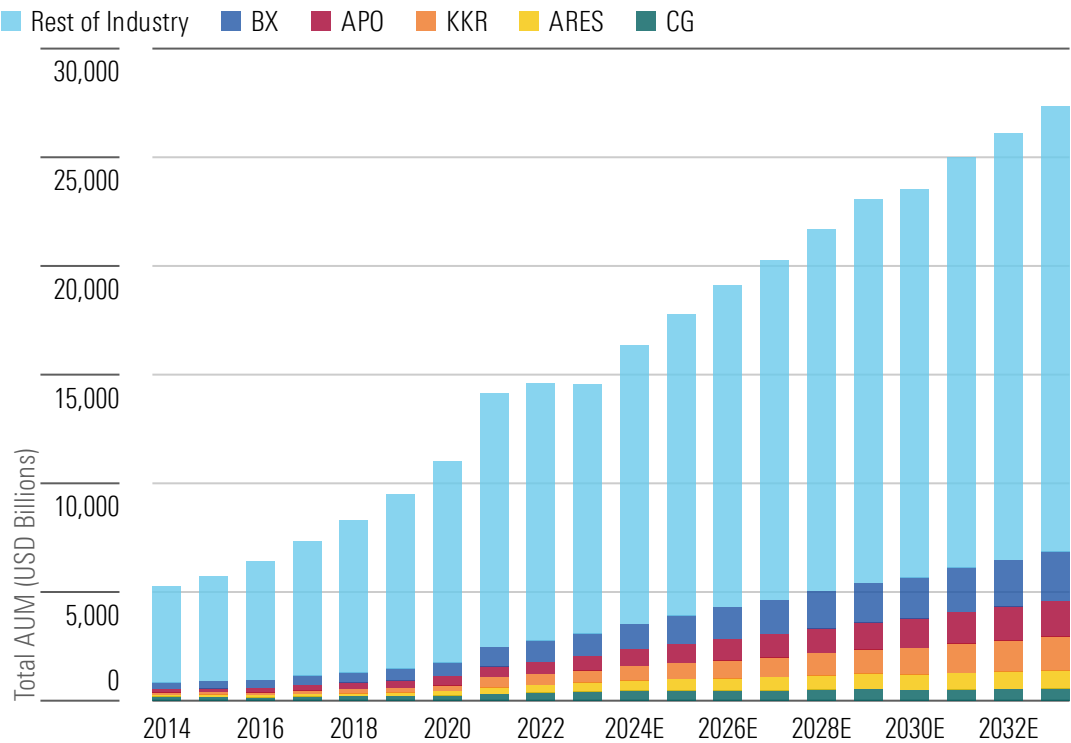
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The Five Largest Publicly-Traded Alternative Asset Managers Will Continue to Expand Their Share of the Market

The alternative-asset management business is quite fragmented, with the five largest stand-alone firms—Blackstone, Apollo, KKR, Ares, and Carlyle—accounting for 21% (21%) of the market on a total (fee-earning) AUM basis at the end of 2023, up from 16% (18%) at the end of 2013. With these firms expected to continue dominating fundraising efforts, we envision them gaining even more share going forward—and this does not include acquisitions, which we feel will be more likely down the road as growth slows and competition heats up.

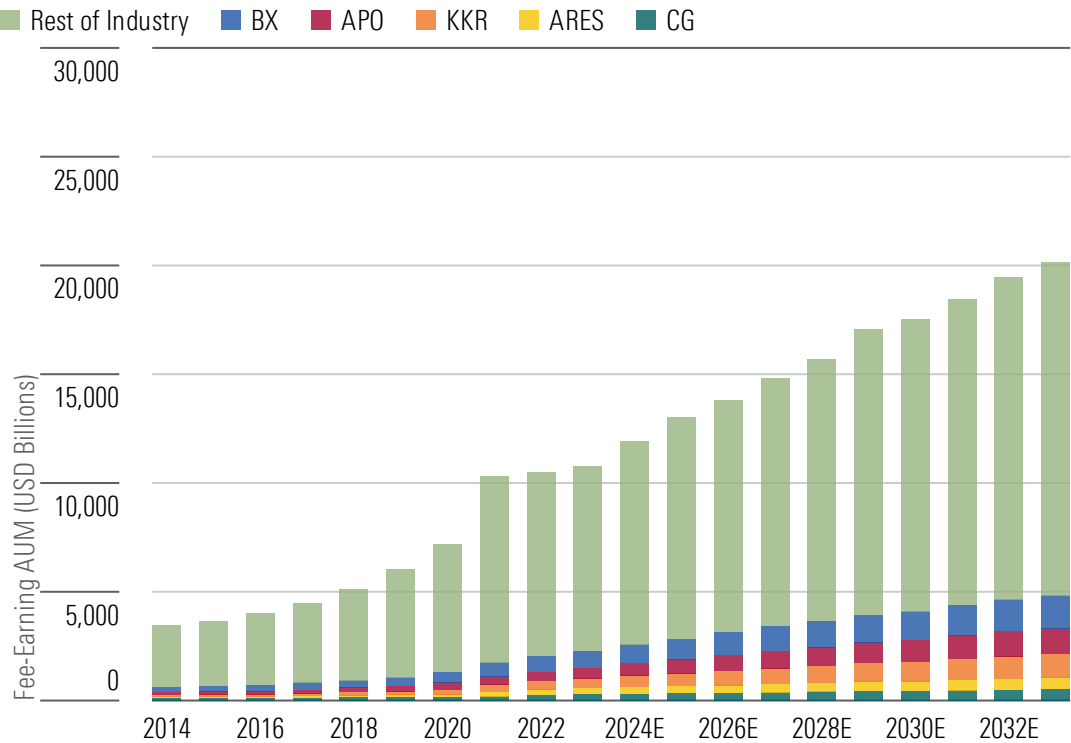
Total AUM of Largest Stand-Alone Alternative Managers and Industry—2014-33E

Blackstone continues to expand its total AUM at a faster rate than its closest peers.



Fee-Earning AUM of Stand-Alone Alternative Managers and Industry—2014-33E

Higher levels of fee-earning AUM allow Blackstone to reinvest at higher rate than peers.



Demand for Alternative Products Will Likely Slow Over the Next Decade as Allocation Ceilings Are Hit

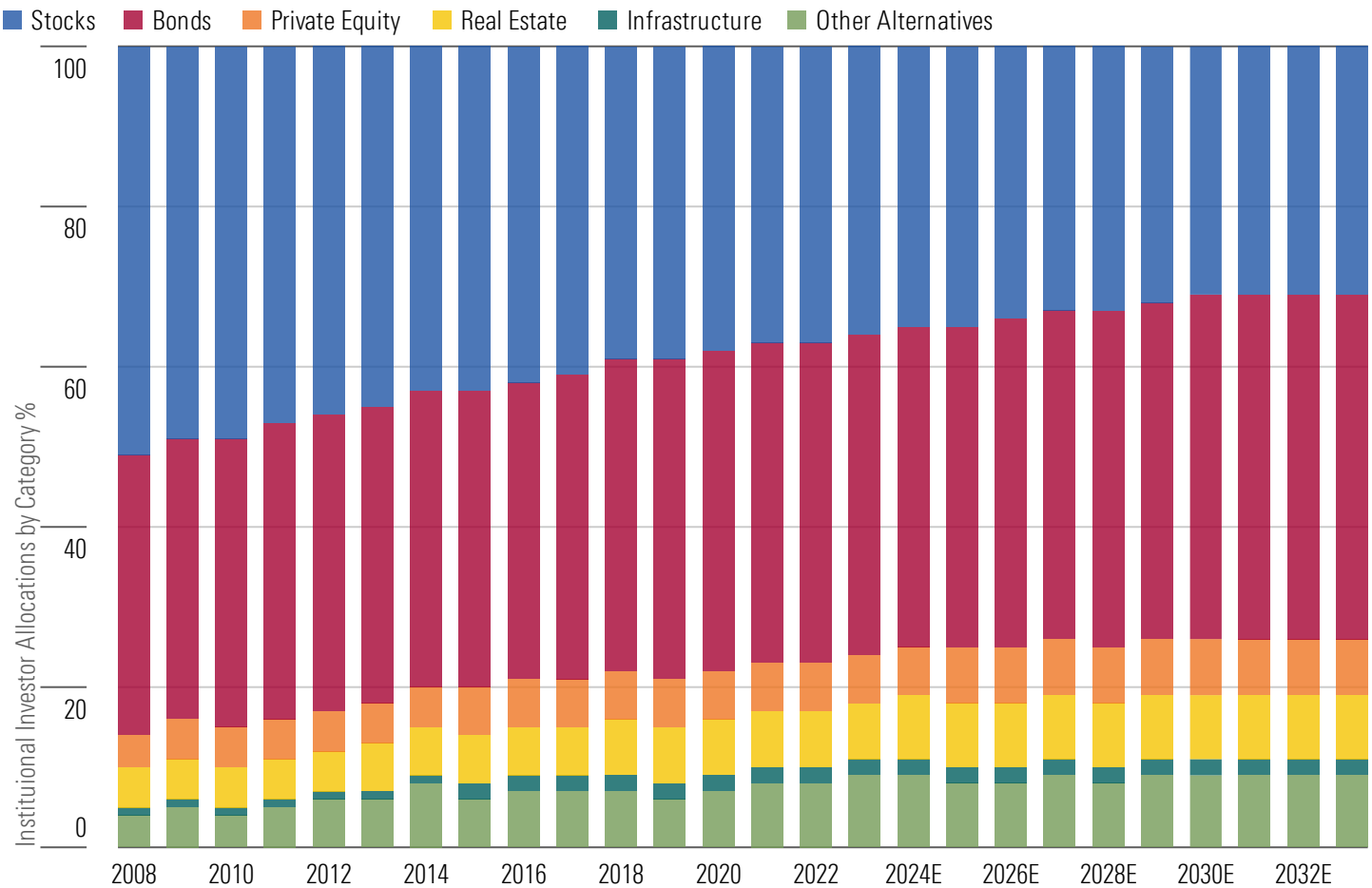
Allocations to private markets have increased over time as the investor base has expanded to include a wider range of investors beyond the sovereign wealth funds, pension funds, banks, insurance companies and foundations that have traditionally invested in this segment of the market.

With private markets outperforming public markets for much of the past few decades, and accessibility to private equity and private debt offerings having improved, owing to a larger number of managers (especially in non-private equity offerings) and distributors (especially in the private wealth channel), the industry has enjoyed a period of record level fundraising the past fifteen years.

But the expansion has its limits, as we have already gone from having 14% of institutional invested capital dedicated to private markets in 2008 to an estimated 24% at the end of 2023. Our expectation is that commitments to alternative offerings will peak out around 25%-26% of institutional capital, with any incremental growth beyond that coming from increased penetration of private wealth channels (and, to a lesser degree, retail fund offerings).

Institutional Investor Portfolio Allocation Percentages by Product Category—2008-33E

Institutional investors have been steadily increasing their allocation to alternative products but that has its limits.



Sources: McKinsey/CEM Benchmarking, PitchBook, and Morningstar equity research data and estimates. Data as of Nov 8, 2024.

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Traditional Asset Managers Looking to Encroach on Dominant Positioning of Largest Alternative-Asset Managers

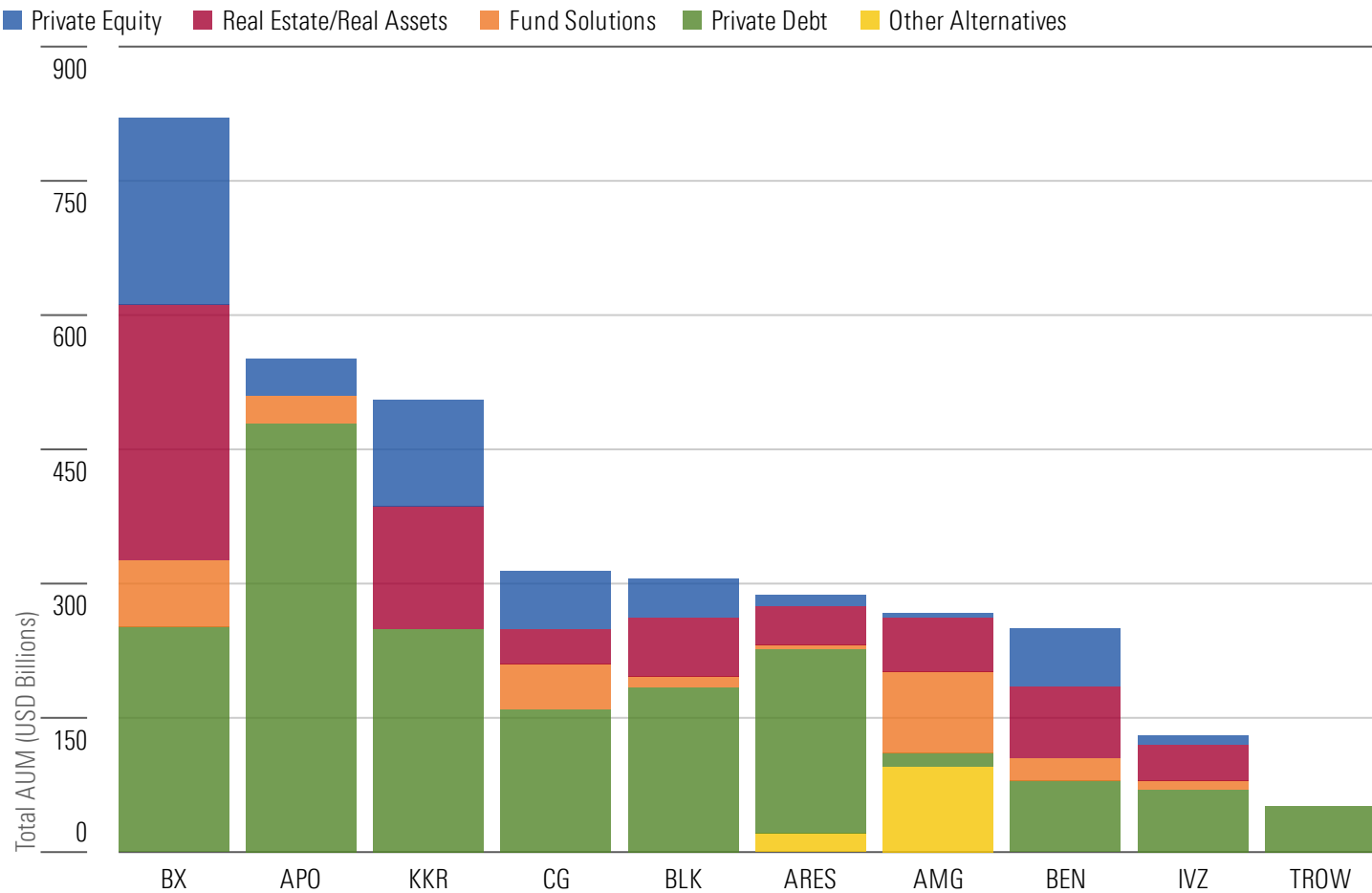
While the alternative-asset managers have enjoyed a long period of exceptional growth, we think the future will be much harder for them than in the past, and not just because allocation percentages are likely capped in the long run. Meanwhile, we see the traditional US-based asset managers continuing to increase their exposure to alternative assets over the next decade, which could prove to be problematic for the five largest stand-alone alternative-asset managers down the road.

We believe the traditional asset managers are likely to be more fungible on fees than the alternative-asset managers have been historically — especially with base management fees for alternative assets being higher than what most traditional asset managers earn on their core offerings.

With the future holding increased competition from peers, increased pressure on fees, higher overall tax rates relative to their past, and a general maturing of the alternatives industry (from a solid period of above average growth the past decade) it will become increasingly more difficult for these managers to consistently generate excess returns.

Product Set Exposure by Fee-Earning AUM for Select Alternative and Traditional Asset Managers—Q3 2024

Several of the traditional asset managers have been building scale in alternatives but still trail the largest players.



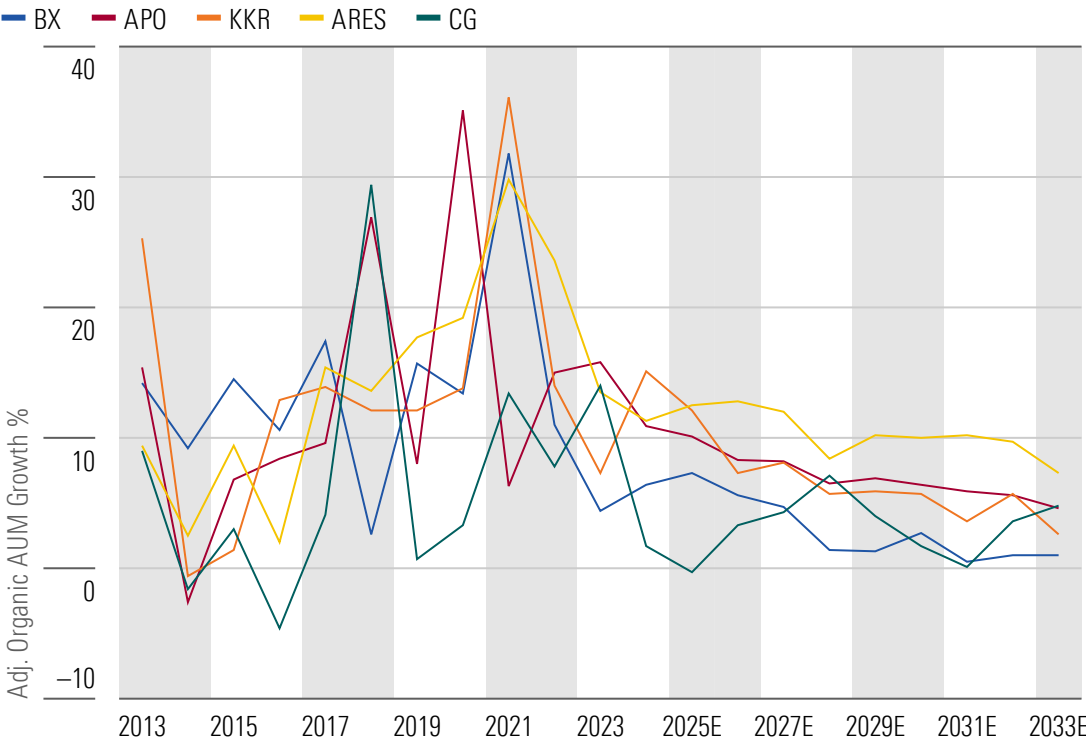
Sources: PitchBook and Morningstar equity research data and estimates. Data as of Nov. 8, 2024.

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As Growth Matures Over Time in the Private Markets, Additional Pressure Will Be Placed on Fees

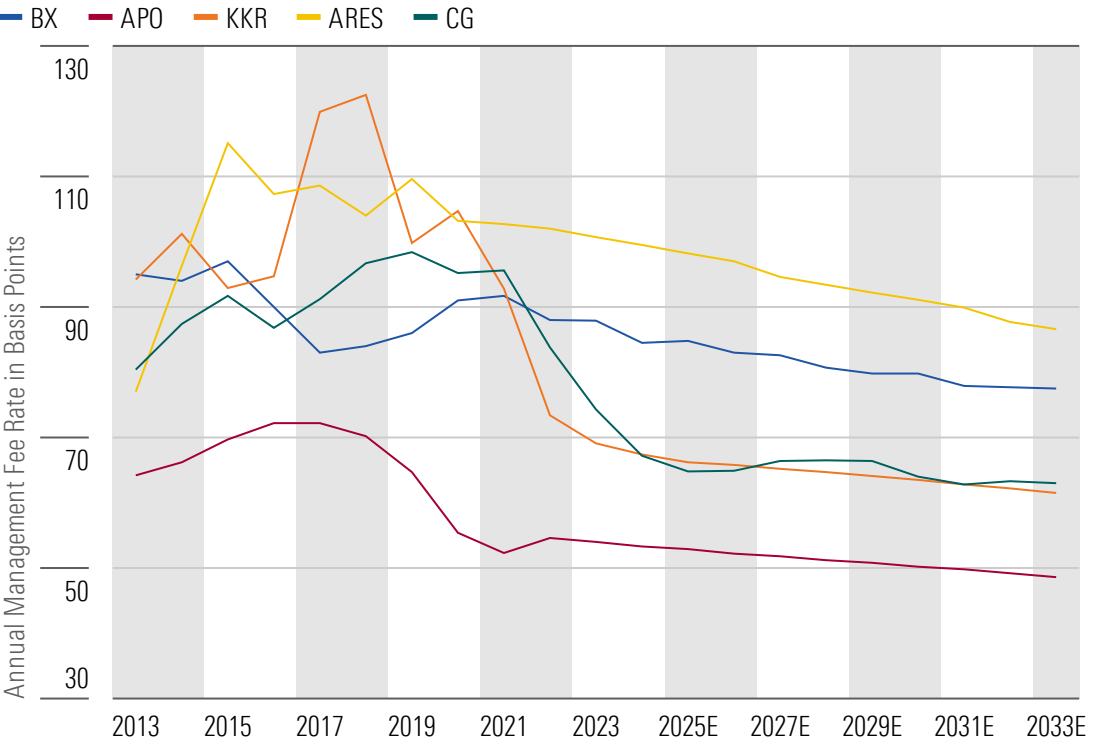
The alternative-asset managers have enjoyed an exceptional period of growth for much of the past decade as demand for alternatives increased. Going forward, we expect above-average levels of organic AUM growth relative to the traditional asset managers.

Annual Organic AUM Growth Rates for Alternative-Asset Managers—2013-33E
Higher switching costs put a floor under organic AUM growth for alternative managers.



Fees have come down steadily over time as an increasingly crowded marketplace, declining risk-adjusted returns for some product segments, and major mix shifts to insurance-based products have pressured some management and performance fees.

Annual Management Fee Rates for Alternative-Asset Managers—2013-33E
Fees have come down for alternative asset managers even without passive competition.



Sources: Company reports and Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

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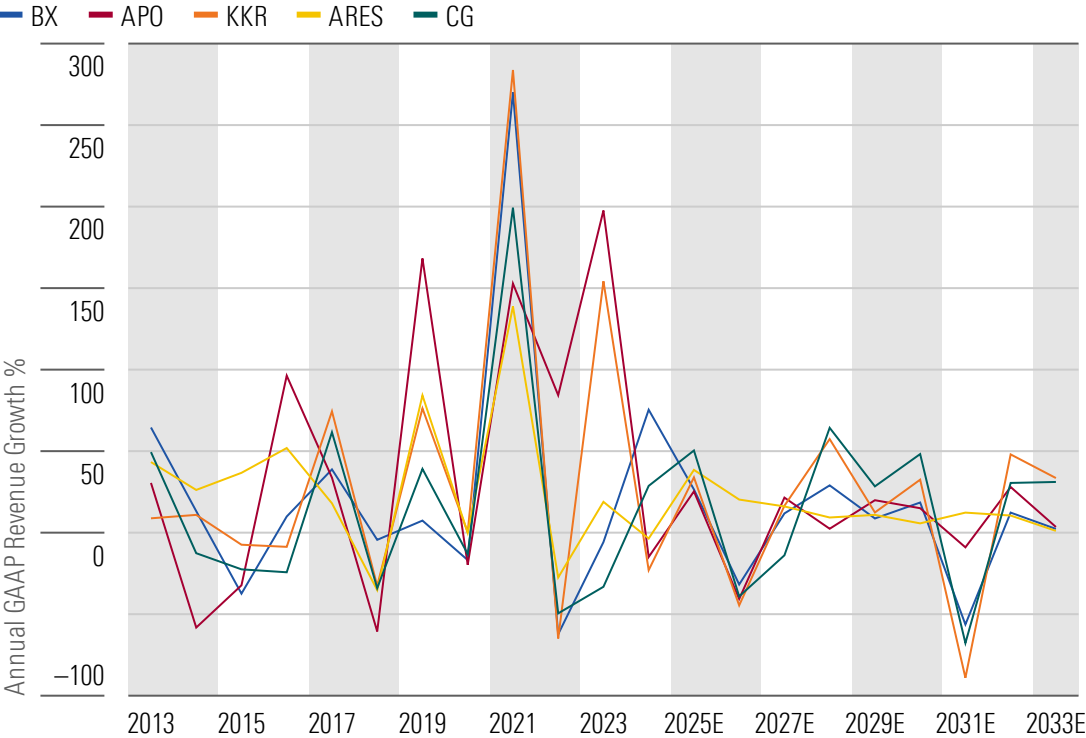
While Top-Line Results Are More Volatile, the Alternative Managers Benefit From a More-Variable Cost Base

Coming off a record fundraising year in 2021, revenue for the alternative-asset managers plummeted during 2022 due to lower levels of unrealized performance allocations and impacts to principal investments, which we has taken some time to recover from.

With more variable costs in their business models, most alternative-asset managers have less operating leverage than the traditional asset managers, which tends to keep their operating margins from nosediving when revenue falls off a cliff like it did in 2022.

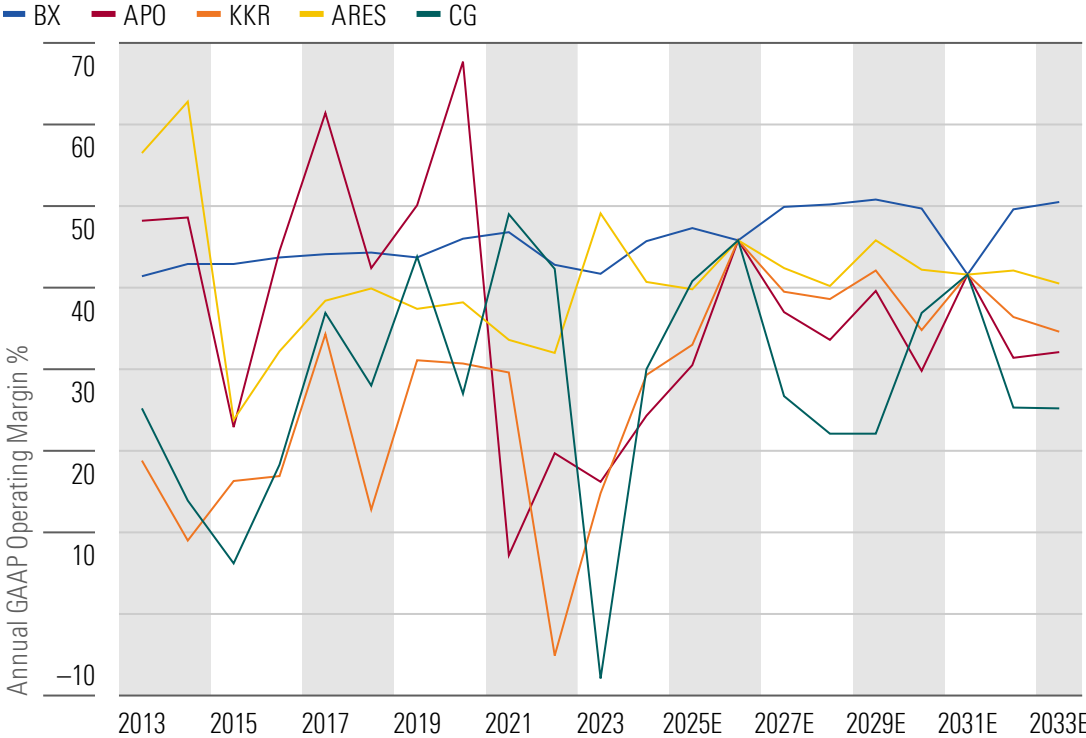
Annual GAAP Revenue Growth Rates for Alternative Managers—2013-33E

Alternative manager revenue tends to be more volatile because of performance fees.



Annual Adjusted GAAP Operating Margins for Alternative Managers—2013-33E

Blackstone’s adjusted operating margins have been more stable than peers historically.



Sources: Company reports and Morningstar equity research data and estimates. Data as of Nov. 15, 2024.

See Important Disclosures at the end of this report.

ESG Snapshot: US Asset Managers

Corporate governance and product governance are two of the larger issues for both the traditional and alternative-asset managers.

Summary of Sustainalytics ESG Exposure Ratings

When looking at environmental, social, and governance risks, product governance (PG) and corporate governance (CG) are two of the larger issues for both the traditional and alternative-asset managers. Data privacy & security (DP&S), human capital (HC), and business ethics (BE) might score lower but remain important points of consideration.

Corporate Governance and Product Governance

From a corporate governance perspective, governance structures, practices and behavior are all important considerations, with the quality and integrity of a company's board and management and its remuneration systems weighing heavily on scores. As for product governance, failure to provide reliable and trustworthy services can affect both reputation and financial performance, so asset managers tend to be more careful with how they manage the pricing, performance, sales and positioning of their products.

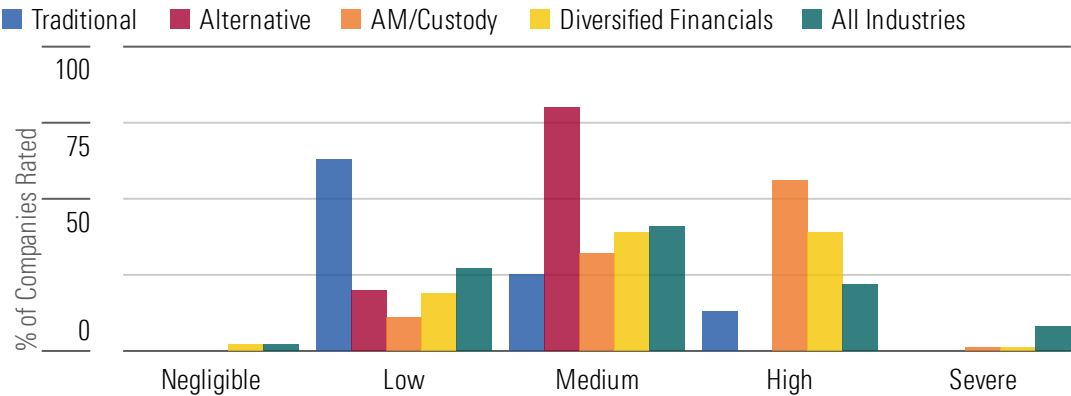
Data Privacy and Security, Human Capital, and Business Ethics

Asset managers spend a lot of time and capital to safeguard against data breaches, which can cause service disruptions, increase expenses, damage reputations, and shake customer confidence. Human capital and business ethics must also be monitored to ensure that asset managers are adhering to their social and fiduciary responsibilities.

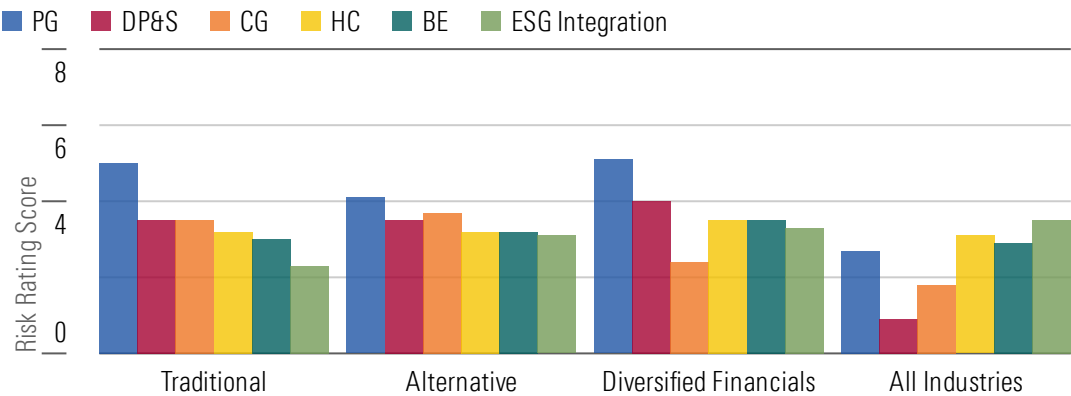
Asset Management ESG Integration

ESG Integration refers to asset managers' provision of products and services that integrate an ESG perspective as a distinguishing feature, with most firms remaining committed to integrating ESG across all asset classes and investment strategies.

Distribution of ESG Risk Ratings for Asset Managers, Financials, and All Industries



Average Issue ESG Risk Rating Score



Appendix and Disclaimers

Appendix—Additional Source Information

Slide 42 – BlackRock’s 10-year expected annualized return forecasts for US Large Cap Equities, Europe Equities (as a stand in for Developed-Markets Equities), Emerging-Markets Equities, and US Aggregate Bonds as of June 2024;

Invesco’s 10-year expected annualized returns forecasts for US Large Cap Equities, Euro Area Large Cap Equities, Emerging-Markets Equities, and US Aggregate Bonds as of June 2024.

JP Morgan’s 10 year-to-15-year expected annualized returns forecasts for US Large Cap Equities, Euro Area Large Cap Equities, Emerging-Markets Equities, and US Aggregate Bonds as of September 2024;

Morningstar Investment Management’s 10-year expected annualized return forecasts for US Stocks, International Developed Stocks, Emerging-Markets Stocks, and US Aggregate Bonds as of September 2024;

Research Affiliates’ 10-year expected annualized return forecasts for US Large Cap Equities, Europe Equities, Emerging-Markets Equities, and US Aggregate Bonds as of October 2024;

Schwab’s 10-year expected annualized return forecasts for US Large Company Stocks, International Large Company Stocks, Emerging-Markets Equities, and US Aggregate Bonds as of October 2024;

Vanguard’s 10-year expected annualized returns for US Equities (in a 3.2%-5.2% range), Global ex-US Developed Markets Equities (7.0%-9.0%), Emerging-Markets Equities (5.7%-7.7%), and US Aggregate Bonds (4.5%-5.5%) as of June 2024; and,

Appendix—Additional Source Information

For more insight into the trends and other issues affecting not only the traditional asset managers but the alternative-asset managers, which influence our long-term forecasts for the US-based asset management industry, please see our published Industry Pulse reports:

- "US Asset Managers: Q3 2024," published on Aug. 23, 2024.
- "US Asset Managers: Q2 2024," published on May 24, 2024.
- "US Asset Managers: Q1 2024," published on Feb. 23, 2024.
- "US Asset Managers: Q4 2023," published on Nov. 17, 2023.
- "US Asset Managers: Q3 2023," published on Aug. 21, 2023.

We also have a broader industry reports available for the US-based asset managers, including:

- "US-Based Traditional Asset Manager Moats Continue to Narrow," published on Oct. 9, 2024.
- "Alternative-Asset Managers Face Fewer Headwinds for Time Being," published on Aug. 24, 2022.
- "New Era for US Asset Managers: Industry Consolidation Gathering Steam in a Decadeslong Process," published on Nov. 30, 2021.
- "New Era for US Asset Managers: Four Traits That Asset Managers Must Be Diligently Focused on to Be Successful in the Long Run," published on Dec. 30, 2019.
- "A New Era for Asset Management: Shifting Balance of Power with Distributors and End Clients has Narrowed Moats of Most Firms," published on Mar. 15, 2019.

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