William J. Nutt, Chairman and CEO, *Affiliated Managers Group, Inc.*
AIMSE 26th Annual Conference
May 4-6, 2003

Issues, challenges and opportunities – 2003

Survivorship is an issue never dreamed of four years ago and is now a reality for many firms. The prior bear markets we have lived through are not of the magnitude of the last three and a half years. The question most often asked, "Is it different this time"? It was asked when the market went up, and the answer from many was yes – it's different this time. You don't have to have earnings. But they were wrong.

And what about on the downside? Yes, in magnitude and time. But we can't see out…which leads to the necessity of responding in rational ways.

How do these markets impact investment managers?
First, is the symmetry of margins. Many thought that profit margins always rose. But you cannot cut expenses as quickly when margins are dropping. What does that mean? Cutbacks.

Second, is unhappy clients. "What the hell are you doing? You've lost money for the last 3½ years."

It's not fun, but what do we do about it? First, we need to review the causes.

1970s
- Passing of ERISA in the 70s shaped our industry, creating consultants, boutiques, and a whole new way of looking at investment programs
- At the same time, the death of inflation, enforced by the Fed, in turn brought on the equity returns of 1981-2000

1980s
- Decade of product development and proliferation; "Product of the week," the "Turkey Fund"
- Open-end and closed-end funds

1990s
- Era of distribution; the impact of technology on distribution
- Development of wrap accounts, unbundled options, triumph of "open architecture"

34085 Pacific Coast Highway, Suite 206
Dana Point, CA 92629
949-487-3500; Fax: 949-487-3510
www.charnleyrostvold.com
c-r@pacbell.net

2000s

- Retirement of original founders; generational shift/succession issues
- 9-11, terrorism, Iraq war

The good news – the investment industry is not among the walking wounded in American industry. The industry attracts talented people, and the U.S. has an aging population that needs to invest.

Six things we can do to go back to the basics:

1. Realize we are a mature industry
2. If you can't raise prices, you have to manage expenses (which often means people – the biggest expense most firms have)
3. As the industry matures and you have to watch expenses, you have to think about products and processes that are scaleable
4. Impact of technology; outsourcing of a myriad of functions such as HR, trading, compliance
5. Consolidation – scale the business
6. Understand what ownership structure will allow your firm to be viable, profitable and aligns interests of firm with firm management, clients and shareholders

Succession and continuity are major issues. You will have to be able to replace the skill sets.

When considering an investment firm for acquisition, AMG wants equity in the hands of as many decision makers as possible for retention and motivation. AMG owns an average of 63.6% of the firms they have acquired.