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The UK Wealth Management Industry withstands the crunch but prepares for worse

The wealth management industry in the UK manages or administers £402bn, generating revenue of £3.9bn and pre-tax profits of £1bn, according to the latest findings of the ComPeer Annual Industry Report.

2007 was a year of two halves – an excellent first half followed by a significantly slower second half. Overall, however, the year was another strong one for the wealth management sector, with assets growing by 10% (2006: 18%) and revenues by 16% (2006: 18%). Both measures easily outstripped the rise in stock markets, for the second year running, with the FTSE All Share up 2% and the APCIMS/Balanced up 2.5%. The growth stemmed primarily from new business, with net inflows of £23.9bn, equivalent to just over 7% of opening assets under management. Given the healthy net inflows, this suggests wealth managers are attracting an increased share of UK investors' available wealth.

In contrast, the Execution Only sector grew revenues by a more modest 2.74%. However, with costs down marginally the profit margin for the sector rose to 17.6% (2006: 15%). Cost per trade edged down to £23.18, the lowest figure since 1998. Productivity is still improving on the back of more trades being executed online, now up to 67%. CFDs and Spreadbets are the main engines of growth in trades, up 82% and collectives also showed a healthy 14.9% increase. A major change in the sector was the shift of Execution Only trading away from the LSE to PLUS Markets. The extent of the shift and the consequences for business performance will be revisited next year.

Mike Carroll, co-founder of ComPeer, commented:

"Although the Credit Crunch has obviously impacted the sector, wealth management continues to be one of the most attractive areas of financial services. The most significant effect of the crunch so far has been to boost treasury revenues, as private banks and client money firms took advantage of favourable inter-bank rates to increase margins on client cash. Indeed net interest income accounted for over 30% of the total growth in revenues."

Costs rose by 12%, driven largely by a 7% increase in staff numbers and a hike in average staff costs. Over 500 new client facing professionals joined the market precisely when new business levels are slowing. The impact on productivity suggests that a drop in remuneration levels and/or a squeeze on profit margins is likely next year.

Corporate activity was significant, particularly among consolidators and private banks acquiring IFA businesses for their skill sets and client bases. However, in this sector smaller firms continue to thrive and prove that lack of scale is no barrier to success. Mike

ComPeer Limited
8 Laurence Pountney Hill, London EC4R 0BE
T: +44 (0) 20 7648 4830
E info@compeer.co.uk
W: www.compeer.co.uk

Carroll stated that “With the impact of the Retail Distribution Review, we expect to see further restructuring as IFA firms determine their future business models. Those firms who depend on IFA introductions need to think carefully about the consequences of this restructuring.”

Looking forward there will continue to be growth opportunities, even in the current environment. Wealth creation will slow, but the top end of the market is largely immune, while the affluent sector still offers significant opportunity, both from raising share of wallet (particularly through pension assets) and from gaining new clients.

Notes to Editors:

Established in 1993, ComPeer provides competitor benchmarking, research services and industry insights to the wealth management sector. The annual industry report is based on a review of 151 private client stockbrokers, investment managers and private banks in the UK. For further information on the report or the industry please contact us on the details below.

Contacts

Mike Levy

Business Development Director

020 7648 4937

mike.levy@compeer.co.uk

www.compeer.co.uk

Roger Colletta

Managing Director

020 7648 4838

roger.colletta@compeer.co.uk