

## Funds Under Management and Capital Review

### Introduction

We have set out below a review of funds under management, including margins, and capital, which is unaudited. We have presented other aspects of the financial review within the financial statements. We believe that this integrated approach is more relevant to the users of the financial information and complies with the objectives of the Companies Act 2006. The financial statements are supported with notes that describe the relevant accounting policy, a description of the significant accounting estimates and judgements, details of the financial statement amounts and a discussion of the movements in those amounts and balances. Further explanation is given in the Basis of Preparation section on page 40.

### Funds under management (FUM)

Man provides investment management services to third party investors and fund entities. The fund entities have independent boards of directors with independent governance and decision making powers, including the ability to remove the investment manager. The fund entities' investment performance, assets and liabilities are therefore separate from the Group and are not consolidated into the Group's financial statements.

The investors' capital is managed by Man in accordance with investment management mandates. These mandates specify the types of investment that are permitted, subscription and redemption criteria and fees. Investors are charged management fees based on asset exposure and incentive fees based on investment performance. The asset exposure, or FUM, is supported by the investors' capital and any financing provided to the fund entities by banks and prime brokers, referred to as 'leverage'.

Funds under management grow through new investor subscriptions, increased leverage, positive investment performance and foreign currency movement and are reduced by redemptions, reduced leverage, negative investment performance and foreign currency movements.

Generally there is a strong correlation between investment performance and growth in funds under management. If the products have investment performance in line with the investors' expectations we may see increased FUM through increased subscriptions from existing and new investors, which could also increase the leverage component, and lower redemption rates. Where investment performance is less than expected, redemptions may increase, new subscriptions may be lower and negative investment performance will reduce the investors' capital which could also reduce the leverage component.

Growth in FUM is therefore an indication of our performance as an investment manager and our ability to grow assets and remain competitive.

Funds under management are a key driver of the Group's results and prospects, as FUM forms the basis on which the Group's revenue is generated. Our strategy is to grow funds under management while maintaining our revenue margin.

Movements in FUM during the period are shown below:

Total	Private Investor			Institutional \$bn	Total \$bn
	Guaranteed \$bn	Open-ended \$bn	Total \$bn		
<b>Opening FUM – 1 April 2009</b>	<b>16.4</b>	<b>11.4</b>	<b>27.8</b>	<b>19.0</b>	<b>46.8</b>
Sales	1.3	3.7	5.0	0.7	5.7
Redemptions	(0.9)	(1.4)	(2.3)	(5.3)	(7.6)
Net sales/(redemptions)	0.4	2.3	2.7	(4.6)	(1.9)
Investment movement	(0.7)	(0.6)	(1.3)	0.7	(0.6)
Foreign currency movement	0.9	0.5	1.4	0.7	2.1
Other	(1.5)	0.2	(1.3)	(1.1)	(2.4)
<b>30 September 2009</b>	<b>15.5</b>	<b>13.8</b>	<b>29.3</b>	<b>14.7</b>	<b>44.0</b>
Sales	0.1	1.6	1.7	0.9	2.6
Redemptions	(0.7)	(1.7)	(2.4)	(2.8)	(5.2)
Net sales/(redemptions)	(0.6)	(0.1)	(0.7)	(1.9)	(2.6)
Investment movement	(0.4)	(0.2)	(0.6)	0.1	(0.5)
Foreign currency movement	–	(0.1)	(0.1)	(0.7)	(0.8)
Other	(0.5)	(0.6)	(1.1)	0.4	(0.7)
<b>Closing FUM – 31 March 2010</b>	<b>14.0</b>	<b>12.8</b>	<b>26.8</b>	<b>12.6</b>	<b>39.4</b>
<b>Growth in FUM in the year</b>	<b>-15%</b>	<b>+12%</b>	<b>-4%</b>	<b>-34%</b>	<b>-16%</b>

Private investor FUM decreased by 4% during the period primarily as a result of positive net sales being offset by negative fund product performance and the resulting routine re-balancing of investment exposure in the guaranteed product range. Institutional FUM reduced by 34% as a result of muted sales and significant redemptions, all be it at a reducing run rate.



Kevin Hayes, Finance Director

### Analysis of FUM at 31 March 2010

	Private Investor		Institutional \$bn
	Guaranteed \$bn	Open-ended \$bn	
IP 220 products	6.6		
OM-IP products	4.1		
Other guaranteed – AHL	2.1		
Other guaranteed – Multi-Manager	1.2		
Open-ended – AHL		10.8	
Open-ended – Multi-Manager		1.8	
Open-ended – UCITS		0.2	
Institutional – AHL			0.8
Institutional – Multi-Manager			8.4
Institutional – Pemba/Ore Hill			3.4
	<b>14.0</b>	<b>12.8</b>	<b>12.6</b>

### Sales and redemptions

A further analysis of sales and redemptions is given below, together with redemption rates:

Private investor – half yearly fund flows	H2 2010	H1 2010	H2 2009	H1 2009
Sales (\$bn):				
– Guaranteed	<b>0.1</b>	<b>1.3</b>	2.4	3.7
– Open-ended	<b>1.6</b>	<b>3.7</b>	1.8	3.4
	<b>1.7</b>	<b>5.0</b>	4.2	7.1
Redemptions (\$bn):				
– Guaranteed	<b>0.7</b>	<b>0.9</b>	2.6	2.0
– Open-ended	<b>1.7</b>	<b>1.4</b>	3.5	1.0
	<b>2.4</b>	<b>2.3</b>	6.1	3.0
Annualised redemptions/average FUM:				
– Guaranteed	<b>9.5%</b>	<b>11.4%</b>	24.2%	13.9%
– Open-ended	<b>25.6%</b>	<b>22.2%</b>	54.7%	15.0%

Private investor – quarterly fund flows for 2010	FY 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Sales (\$bn):					
– Guaranteed	<b>1.4</b>	–	0.1	0.4	0.9
– Open-ended	<b>5.3</b>	0.6	1.0	1.2	2.5
	<b>6.7</b>	0.6	1.1	1.6	3.4
Redemptions (\$bn):					
– Guaranteed	<b>1.6</b>	0.3	0.4	0.3	0.6
– Open-ended	<b>3.1</b>	0.9	0.8	0.5	0.9
	<b>4.7</b>	1.2	1.2	0.8	1.5
Annualised redemptions/average FUM:					
– Guaranteed	<b>10.3%</b>	8.0%	10.2%	7.9%	15.4%
– Open-ended	<b>25.2%</b>	28.1%	24.1%	15.2%	30.1%

Private investor sales were \$6.7 billion for the year. The majority of the flows came from open-ended AHL formats, where investors have seen buying opportunities at attractive entry levels. In the first half we launched a guaranteed product in Australia, alongside guaranteed AHL formats, but guaranteed product sales in aggregate were lower than in comparable periods.

Private investor redemptions for the guaranteed products have reduced and the annualised redemption percentage has returned to the previous historical levels. Redemptions in 2010 have reduced significantly from H2 2009, which included redemptions and product switches from the Man Global Strategies products. Redemptions in the open-ended products will generally be higher than guaranteed products as they are influenced more by investors' performance expectations. Open-ended redemptions in H2 2009 were high as a result of strong sales in previous periods followed by strong performance from AHL in the quarter to December 2008. Since that period redemptions have moderated.

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Institutional – half yearly fund flows	H2 2010	H1 2010	H2 2009	H1 2009
Sales (\$bn)	<b>0.9</b>	<b>0.7</b>	0.5	3.1
Redemptions (\$bn)	<b>2.8</b>	<b>5.3</b>	4.9	3.0
Annualised redemptions/average FUM	<b>41.0%</b>	<b>63.0%</b>	42.8%	20.7%

Institutional – quarterly fund flows for 2010	FY 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Sales (\$bn)	<b>1.6</b>	0.5	0.4	0.4	0.3
Redemptions (\$bn)	<b>8.1</b>	1.4	1.4	1.7	3.6
Annualised redemptions/average FUM	<b>54.7%</b>	42.6%	39.4%	44.3%	82.3%

We saw significant redemptions in the institutional business, but these flows have moderated in the course of the year.

Institutional sales have remained muted as institutional allocators, particularly in Europe, have remained out of the market. Redemptions have continued to show a significant quarter on quarter decline, with the level of notified quarterly redemptions for the June 2010 quarter at around \$350 million.

### Investment movement

The aggregate investment movement was a negative \$1.1 billion for the year. The majority of this investment movement resulted from negative performance in AHL, partly offset by positive performance in the Multi-Manager. The investment performance of our investment managers is described in the AHL and Multi-Manager sections.

### Foreign exchange impact of funds under management

Investors choose the underlying currency of their fund products to match their investment strategy. Man's functional currency is US dollars and therefore FUM and revenue are reported in US dollars. Changes in FUM as a result of foreign currency are not relevant to the investor, however, as FUM is a measure of our earning base, changes in FUM denominated in foreign currencies affect the revenue that Man earns and this creates a foreign currency exposure. This exposure is not hedged.

Funds under management denominated in foreign currencies increased in the first half as a result of a weaker US dollar, but this trend partially reversed in the second half of the year, driven by the euro weakening against the US dollar.

### FUM by currency

	2010		2009	
	FUM \$bn	FX gain/ (loss) \$bn	FUM \$bn	FX gain/ (loss) \$bn
US dollar	<b>21.0</b>	–	24.1	–
Euro	<b>10.6</b>	<b>0.2</b>	14.7	(2.8)
Australian dollar	<b>3.5</b>	<b>0.9</b>	3.6	(0.9)
Swiss franc	<b>1.2</b>	–	1.2	(0.1)
Japanese yen	<b>2.1</b>	<b>0.1</b>	2.1	(0.3)
Other	<b>1.0</b>	<b>0.1</b>	1.1	(0.1)
	<b>39.4</b>	<b>1.3</b>	46.8	(4.2)

### Other movements

Other movements reflect the change in leverage as a result of the routine re-balancing of investment exposure in the guaranteed product range. Negative performance in AHL was the primary cause of the \$2.4 billion reduction in private investor FUM as a result of this re-balancing. This effect can reverse following periods of positive performance. Institutional investor redemptions from products with structural leverage (for example, Four Seasons 2XL) resulted in a reduction of FUM of \$0.7 billion during the year.

### Margins

Gross management and other fees represent management fees earned on funds under management, management fees from associates and joint ventures, interest on loans to funds and other fees. In the table below we have shown gross margins both including and excluding interest income earned on loans to funds, as the level of loans to funds can change based on the requirements of the product to re-balance. Gross margins are also shown to indicate the margin after deducting sales commission costs.

The gross management and other fees margin (before interest income) for private investors was 424 bp, compared to 420 bp for 2009. The primary reason for the small increase is the relative increase in FUM relating to high margin products, for example IP 220 and AHL products, as a proportion of the total private investor FUM. The impact of associates adds 14 bp to the overall private investor gross margin.

The gross margin (excluding interest income) on guaranteed products is approximately 463 bp and approximately 356 bp on open-ended products. The margins net of sales commission costs are 325 bp and 278 bp for guaranteed and open-ended products respectively. The difference between the two margins primarily relates to a structuring fee earned on guaranteed products. The private investor margin after sales commission costs has been impacted in H2 2010 by the incurrence of around \$30 million of non-recurring sales commission items, as detailed in Note 10(a) to the financial statements.

	Guaranteed	Open-ended	Associates	Private investor Total
Average FUM (\$bn)	15.5	12.3		27.8
Gross management and other fees (\$m)	718	438	38	1,194
Sales commission costs (\$m)	(214)	(96)		(310)
Gross management fee margin (%)	4.63	3.56		4.30
Gross management fee margin after sales commission costs (%)	3.25	2.78		3.18

The gross management and other fees margin for institutional investors was 93 bp, in line with the 94 bp for 2009.

During 2010 we merged the three fund of funds businesses, RMF (previously the institutional business) and Glenwood and MGS (previously the private investor business) into one Multi Manager business. As a result the investment management infrastructure was merged into one covering both private and institutional assets. This resulted in both process and cost synergies. While the FUM remains identifiable between private and institutional investors, it is not practicable to specifically allocate the investment management infrastructure costs across the two investor types. We have therefore shown the gross margins net of commissions and the aggregate net management fee margins at the Group level.

At the Group level, the net management and other fees margin is after deducting all costs but excludes net finance expense/income, and also the adjusting items, which are deemed to be non-recurring. The net management fee margin for the Group has declined to 112 bp from 133 bp in the prior year. The primary reason relates to fixed compensation costs and other costs decreasing to a lesser extent than the fall in FUM. However, it is expected that as FUM and revenues increase the cost base is likely to rise to a lesser extent resulting in an increase in the net margin.

	H2 2010	H1 2010	FY 2010	2009	2008	2007
<b>Average FUM in period (\$bn)</b>						
Private investor	<b>27.8</b>	<b>27.8</b>	<b>27.8</b>	38.4	39.6	33.5
Institutional	<b>14.2</b>	<b>15.4</b>	<b>14.8</b>	26.7	29.7	23.7
	<b>42.0</b>	<b>43.2</b>	<b>42.6</b>	65.1	69.3	57.2
<b>Private investor</b>						
Gross management and other fees <sup>1</sup> (\$m)	<b>601</b>	<b>593</b>	<b>1,194</b>	1,662	1,771	1,525
Interest income earned from funds (\$m)	<b>8</b>	<b>8</b>	<b>16</b>	50	74	78
Sales commission costs (\$m)	<b>(171)</b>	<b>(139)</b>	<b>(310)</b>	(398)	(374)	(322)
Gross management fee margin (%)	<b>4.32</b>	<b>4.27</b>	<b>4.30</b>	4.33	4.47	4.55
Gross management fee margin before interest income from funds (%)	<b>4.27</b>	<b>4.21</b>	<b>4.24</b>	4.20	4.29	4.31
Gross margin after sales commission (%)	<b>3.10</b>	<b>3.27</b>	<b>3.18</b>	3.29	3.53	3.59
<b>Institutional</b>						
Gross management and other fees <sup>1</sup> (\$m)	<b>67</b>	<b>70</b>	<b>137</b>	252	297	269
Sales commission costs (\$m)	<b>(8)</b>	<b>(7)</b>	<b>(15)</b>	(12)	(18)	(13)
Gross management fee margin (%)	<b>0.94</b>	<b>0.91</b>	<b>0.93</b>	0.94	1.00	1.14
Gross margin after sales commission (%)	<b>0.83</b>	<b>0.82</b>	<b>0.83</b>	0.90	0.94	1.08
<b>Group total</b>						
Net management fee margin after deducting all expenses <sup>2</sup> (%)			<b>1.12</b>	1.33	1.52	1.63

1 Includes management and other fee income from associates.

2 Net management fee income is before net finance income and excludes adjusting items.

## Funds Under Management and Capital Review continued

### Capital

Man's business model is based on confidence. That confidence comes, in part, from the strength of our capital base. Man has maintained significant excess capital and available liquidity throughout the recent periods of financial crisis.

Our modeling of exposures and risks under stress scenarios has been tested in the last two years by actual market events and has proved to be robust. We maintained significant excess capital, even under the actual stressed market conditions we have experienced.

We have a conservative capital and liquidity framework which allows us to invest in the growth of the business. We utilise capital to support the operation of the investment management process, the testing of research ideas and the launch of new fund products.

We are regulated by the Financial Services Authority (FSA) and are therefore subject to prudential and capital regulation in the same manner as our bank intermediaries and counterparties. Our regulatory

capital requirements are calculated in accordance with a full scope investment group under the Capital Requirements Directive. In addition we calculate our economic capital using scenario and statistical modelling. Our economic capital methodology forms part of our Internal Capital Adequacy Assessment Process (ICAAP) submission to the FSA.

With regards to our regulatory capital the majority of our requirements relate to acquisition goodwill and intangibles which are supported by Tier 1 capital (i.e. shareholders equity and perpetual capital securities). With regards to acquisition goodwill our economic capital model, likewise assumed that this is supported with Tier 1 qualifying capital. The remaining financial resource requirements are supported by available Tier 1 and Tier 2 capital. These requirements include charges for credit risk relating to loans to funds and market risk arising from fund investments. The operational risk requirements are modelled on the basis of scenarios which take into account insurance, internal controls and diversification benefits.

### Group's regulatory capital position

	<b>31 March 2010 \$m</b>	31 March 2009 \$m
Permitted share capital and reserves	<b>3,524</b>	3,843
Innovative Tier 1 Perpetual Subordinated Capital Securities	<b>300</b>	300
Less goodwill and other intangibles:		
– Goodwill on acquisitions of subsidiaries	<b>(798)</b>	(774)
– Goodwill on acquisitions of associates/JVs	<b>(282)</b>	(277)
– Commission intangible asset (FEL)	<b>(278)</b>	(317)
– Other intangibles	<b>(59)</b>	(49)
<b>Available Tier 1 Group capital</b>	<b>2,407</b>	2,726
Tier 2 capital – subordinated debt	<b>400</b>	399
Material holdings deductions	<b>(200)</b>	(382)
<b>Group Financial Resources</b>	<b>2,607</b>	2,743
Less Financial Resources Requirement	<b>(1,127)</b>	(1,030)
<b>Net excess of Group capital</b>	<b>1,480</b>	1,713