MOODY'S
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Credit Opinion: Man Group plc

Global Credit Research - 12 Aug 2011

London, United Kingdom

Ratings

Category	**Moody's Rating**
Outlook	Stable
Senior Unsecured	Baa2
Subordinate	Baa3
Jr Subordinate MTN	(P)Ba1
Pref. Stock	Ba1 (hyb)
Other Short Term	(P)P-2

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Key Indicators

Man Group plc

	[1]**2011**	**2010**	**2009**	**2008**	**2007**	[2]**CAGR/Ave.**
Assets Under Management (AUM) ($ b)	**69.1**	**39.4**	**46.8**	**74.6**	**61.7**	**2.3%**
Net Flows ($ b)	**(2.0)**	**(4.5)**	**(2.1)**	**5.2**	**9.3**	**1.2**
Revenues ($ mm)	**1,655**	**1,345**	**2,488**	**3,222**	**2,179**	**-5.4%**
EBITDA ($ mm) [3]	**699**	**537**	**1,030**	**2,048**	**1,312**	**-11.8%**
Net Income ($ mm)	**211**	**445**	**503**	**1,717**	**1,110**	**-28.3%**
Total Debt ($ mm)	**1,478**	**1,489**	**643**	**402**	**1,589**	**-1.4%**
Total Debt/EBITDA (x)	**2.1**	**2.8**	**0.6**	**0.2**	**1.2**	**1.4**
EBITDA/Interest Expense (x)	**8.1**	**14.9**	**27.1**	**37.2**	**23.9**	**22.2**
Self Managed Investments / Equity (%) [4]	**8.3%**	**10.3%**	**17.1%**	**27.1%**	**18.3%**	**16.2%**
AUM Retention Rate (%) [5]	**73.0%**	**72.6%**	**77.2%**	**82.7%**	**86.8%**	**78.5%**
EBITDA Margin (%)	**42.2%**	**39.9%**	**41.4%**	**63.6%**	**60.2%**	**49.5%**
Net Income Margin (%)	**12.7%**	**33.1%**	**20.2%**	**53.3%**	**50.9%**	**34.1%**
Stability of Revenue Growth (%) (20 qtr) [6]	**9.3%**	**22.6%**	**62.2%**			

[1] Periods represent full fiscal year results for periods ending 3/31. [2] Composite reflects full year compounded average growth rates (CAGR) or averages. [3] EBITDA=Earnings before interest, tax, depreciation of fixed assets and amortization of intangibles (amortization of sales costs is included in EBITDA). Total debt/EBITDA has been calculated using trailing year EBITDA. [4] Self Managed Investments / Equity is the ratio of a firm's on balance sheet investments managed by the firm's own portfolio managers (in the form of seeding) as well as seed capital provided to other funds, relative to the firm's total shareholders' equity. [5] AUM retention rate = 1- (total redemptions / beginning of period AUM). [6] Stability of revenue growth = the average of semi-annual revenue growth rates divided by the standard deviation of revenue growth rates, (using the past 20 quarters of growth rates).

Opinion

SUMMARY RATING RATIONALE

Man Group plc ("Man") is an international asset manager specialising in the alternative investment management business. Man's senior debt is rated Baa2, with a stable outlook. The rating reflects the group's strong market position in the hedge fund industry along with a strong underlying earnings stream supplemented by variable performance fees, coming from various hedge fund products offering a diversity of investment styles. These positives are offset by Man's over-reliance on earnings from its hedge fund management activity, as well as its exposure to the inherent risks of the hedge fund industry as a whole, such as market risk, operational risk and reputational risk. Although diminishing in size, lending to its funds remains a feature of Man's business model for a variety of reasons, which may result in significant temporary calls on capital; however the majority of lending to the funds is discretionary and repayable on demand. Moreover, recent improvements made to the liquidity of the underlying portfolios of products requiring this financing have helped to decrease this potential call on capital.

The outlook is stable. The company's liquidity profile has improved, both through the sale of the company's minority stake of Blue Crest - generating $496m of cash - and through the cash generated by operating activities. Man has also shown a sustained reduction in the need of capital to support the funds. Also supporting the outlook, is the seemingly successful integration of GLG Partners to date, although it is too early to tell whether the acquisition was a complete success. The combined company has retained the GLG portfolio managers, neither company's funds exhibited signs of material outflow due to the acquisition, and integration costs were broadly as estimated. Moody's believes that the addition of GLG has strengthened Man's business profile, by diversifying its geographic base and product base away from the AHL-centric platform and by diversifying its investor base to include retail long-only investors, ultra high net worth individuals and institutional investors of a different nature. The addition of GLG also complements Man's distribution platform, although the Company remains under-represented in North America. The rating outlook on the company has remained stable since August 2010. Moody's believes that in the current economic environment large alternative investment funds (including hedge funds) appear set to expand their institutional investor base, particularly from pension funds, and that Man Group, particularly with the addition of GLG, is well positioned to benefit from this trend.

Moody's noted that there are some balancing considerations to the stable outlook that need to be considered. Firstly, the acquisition of GLG has resulted in a significant change to Man's operating activities and business profile, and although the integration of the businesses appears to have gone smoothly, it may take several years before a full picture of the changes becomes apparent. Secondly, Man is experiencing pressures on its profit margin which is likely to continue in the near term . This is the result of changes in the product mix, with high relative sales of lower margin products such as open-ended products and managed accounts, and as a result of the lower margins achieved by the GLG product range. Thirdly, performance fees generated by the funds have remained subdued as performance of key funds, such as the bulk of AHL-related products, continue to underperform in the current market environment, and remain below high-water marks. However, Moody's believes that the positive trends offset the negative pressures on the company.

Credit Strengths

Credit strengths of Man are:

- Strong position in the global hedge fund industry

- Strong global product distribution capabilities outside of the U.S.

- Good geographic diversification, adaptable product range, diverse customer/investor base and diversification across hedge fund investment styles

- Effective cost controls and consistent strong levels of profitability, although profitability has declined recently

- Substantial alternative liquidity resources and strong regulatory capital position, although somewhat diminished on the conditions outlined by the acquisition of GLG

- The GLG acquisition, has expanded Man's product offering, including both additional liquid hedge fund strategies and more traditional long-only products which will diversify Man's revenue streams and investor base

Credit Challenges

Credit challenges of Man are:

- Business concentrated in the hedge fund sector

- Increased risk profile and higher effective leverage due to lending to funds

- Recent decline in funds under management ("FUM"), excluding the acquisition of GLG, resulting in decreased performance fees and management fees from the levels in previous years

- The integration of GLG will continue to create an element of uncertainty in the near-term

Rating Outlook

The rating outlook is Stable

What Could Change the Rating - Up

The following factors could exert upward pressure on the ratings:

- Material and sustained lower levels of lending to funds, thereby improving the liquidity of its balance sheet and lowering effective leverage

- Increased diversification of revenues and earnings as evidenced by a diversification of products, services and distribution sources

- Sustained improvement in market position and market share of inflows

- Wider improvements in the operational and financial characteristics of the hedge fund industry as a whole

What Could Change the Rating - Down

The following factors could exert downward pressure on the ratings:

- Consistent poor fund performance resulting in (1) reduced private client investments and lower margins; or (2) high level of redemptions, damaging Man's franchise

- Failure to maintain positive cash capital and adequate sources of alternative liquidity

- Significant change in product mix decreasing profit margins

- Material increase in Man's lending to funds

- Material increase in effective balance sheet leverage (defined as adjusted debt to EBITDA) exceeding 2.5 times

- Significant fall in funds under management, leading to lower revenues and pressure on profitability, resulting in EBITDA/Interest below 6x or net income margins below 20%

Recent Results and Developments

Man reported profits before tax of USD 324 million in the year ending 31 March 2011. Funds under management increased to USD 69.1 billion (USD 71 billion as at 30 June 2011) from USD 39.4 billion as of 31 March 2010, adding USD 25.4 billion with the acquisition of GLG Partners, Inc on 14 October 2010. GLG was acquired for a total balance sheet cost of USD 1.7 billion, of which approximately USD 1 billion was in cash. The company rebuilt its capital position post acquisition and with a regulatory capital surplus of approximately USD 650 million and available liquidity of USD 4.8 billion as at its year end, following the sale of its minority stake in BlueCrest. Private investor FUM of approximately USD 36 billion (31 March 2010: USD 27.1 billion) and institutional FUM of approximately USD 33 billion (31 March 2010: USD 11.4 billion), apart from the acquisition the changes in FUM reflect positive investment performance (USD 2.8 billion) and FX movements and other (USD 3.5 billion) effects which offsets to a lesser extent modest net outflows (USD -2.0 billion).

DETAILED RATING CONSIDERATIONS

The key factors currently influencing the rating and outlook are:

Factor 1 - Market Position: Baa

Man is a major player in the alternative investment industry, with approximately USD 69.1 billion of funds under management estimated as of 31 March 2011 (USD 71 billion as at 30 June 2011), including both hedge funds and USD 10.8 billion of long-only UCITS funds. Moody's estimates that this represents around 2.1% of a blended benchmark of hedge funds and UCITS funds' assets under management. Barriers to entry into the hedge fund industry have increased substantially in recent years and with regulations in both Europe and the US pending, this looks set to continue. Man's strong existing position, extensive track-record, institutional infrastructure and reputation ensure that the company is well positioned to maintain and potentially grow its market share in the near future. This is underlined by the mix of structured products, directly managed funds and a range of fund of funds products at Man as well as its managed account platform. As at year end 31 March 2011, Man recorded USD 11.7 billion of gross sales, up from the previous year's gross sales, the majority of which related to sales of GLG products of USD 3.1 billion since its acquisition on 14 October 2010, leaving gross sales ex-GLG relatively flat . Although sales figures have been lacklustre, the latter half of the year shows improving trends in sales and particularly in the open-ended products; additionally, GLG appear to be increasing the momentum of sales.

Factor 2 - Distribution and Services: A

Man has a wide range of distribution sources including banks, brokers and asset managers. As at March 2011, Man had 3850 private investor sales intermediaries with a substantial global footprint, but proportionately under-represented in the US. Private investors are predominantly Asia Pacific-based followed by Europe, while institutional investors, to which Man sells directly, are predominantly European-based with the Americas making up the next largest pool of investors. The company also offers solutions to third-party partners through white labelled products.

Man displays a somewhat concentrated risk profile due to its focus on the hedge fund sector. The group offers additional products and services to its customers, such as a variety of services related to the managed account platform products and UCITS III compliant funds. With the acquisition of the long-only business of GLG, the UCITS funds have become an important element of Man's product range, albeit that much of the assets in the long only business are concentrated in a single Japan-focused fund.

Factor 3 - AUM Diversification and Retention: Baa

Redemption levels have been relatively high post-crisis, having increased from the historically lower levels, but remain lower than redemptions suffered by many traditional asset managers over the same period. Full year gross redemptions were approximately USD 13.7 billion. The guaranteed product offering to private investors exhibited the lowest levels of redemptions and also increased the overall stickiness of AUM. Institutional redemptions of funds of hedge funds products remain relatively weak, while the open-ended alternative products experienced roughly 20% redemptions relative to 25% in the prior year. The GLG assets have grown overall since the acquisition, and it appears that the quarter ending post- acquisition exhibited only a small uptick in redemptions. The long-only business showed the highest redemption rates, at approximately 28% for the five and a half months post acquisition; however these were almost entirely offset by sales.

The diversity of customer type is good with institutional investors representing 48% of assets under management, and private clients 52% of assets under management. Furthermore, private investors consist of both private wealth and retail since the company offers very low minimum subscription in some countries, such as Australia, Canada and Japan. The addition of GLG has improved the company's diversification of customer type, by adding ultra high net worth individuals, more diversity of institutional clients and long-only retail investors.

Although Man remains primarily focused on the hedge fund sector and is not greatly diversified in product class, Moody's believes that the company benefits from being well diversified within the sector, particularly with the addition of the GLG suite of products diversifying Man's business away from AHL, and due to its exposure to a range of different underlying investment styles in its funds of funds. Moreover, the company's ability to create and sell structured products and its new long-only business also add to its diversity.

Factor 4 - Financial Flexibility: Baa

Financial flexibility metrics remain healthy with gross debt to EBITDA remaining slightly over 2x as at March 2010. The increased levels of gross debt in February 2010 combined with the decline in EBITDA have resulted in increased balance sheet leverage. However, it should be noted that Man continues to be in a net cash position. The gross interest coverage ratio continues to be healthy at 8.1x coverage, albeit lower than Man's recent historic coverage ratios. Moody's expects these to remain strong in the near term. Moody's believes that post-acquisition, given the company's significant cash outlay, Man's cash levels and available liquidity have resulted in an increase in liquidity risk in the near term. However, since the acquisition, the company has generated significant cash from operating activities and from the sale of its minority stake in BlueCrest Capital Management, generating approximately USD 500 million in cash. The company also has a significant liquidity buffer in the form of a newly created USD 1.56 billion in committed syndicated facility; the prior facility of USD 2.43 billion had been set to expire by June 2013. Nevertheless, this flexibility is seen as being restricted somewhat by the variable lending to funds and products, as well as other forms of product support that Man has typically provided to its suite of products. Moody's view is that these would most likely lead to a depletion in holding company resources during times of stress. However, the company requires less liquidity at the holding company level in order to meet the needs of the business than it had in the past. This (post-crisis) change in the business's liquidity needs is primarily due to Man's response to recent market conditions and the active decision to improve the underlying liquidity of its funds and products, hence requiring less externally provided liquidity, as well as the change in the company's product mix, and in particular, the recent shift towards open-ended products.

Factor 5 - Profitability and Volatility: Baa

Profitability levels continue to be very strong, largely as a consequence of the ability of hedge fund managers to charge very high fees relative to those seen in more traditional investment funds and the high margins on private investor structured products. However, basic fees remain under pressure industry wide, which may also impact Man Group should recent industry trends continue. With the GLG acquisition, Man's overall profit margins are expected to decrease primarily as a result of the lower profit margins (higher compensation costs) on GLG products and the shift in the group's investor base towards lower yielding institutional clients, which at year-end accounted for nearly half of the group's funds under management. The company, like many alternative investment managers, has a tendency for high volatility of revenues which is inherent in the nature of performance fees, hence affecting Man's overall revenue stability, which in Man's case in the past were particularly concentrated and attributed to AHL. Moody's considers the addition of the GLG funds, and hence diversification away from AHL as a positive, but the addition of another material performance fee piece will create additional volatility given the asymmetric nature of performance fees, in the company's aggregate revenue stream.

Rating Factors

Man Group plc
For publishing in Credit Opinion

Senior Debt Rating Scorecard (weights) [1]	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**	[2]**Score**	**Adjusted Score**
Business Profile								**A**	**Baa**
Factor 1: Market Position (20%)								**Baa**	**Baa**
Market Share of AUM				**2.1%**					
Market Share of Gross Flows			**4.3%**						
Factor 2: Distribution and Services (20%)								**Aa**	**A**
Distribution Channels			**5**						
Services Positioning		**X**							
Factor 3: Diversification & Retention of AUM (20%)								**A**	**Baa**
Diversity of Product Classes		**61.1%**							
Diversity of Customer Type			**57.9%**						
Retention Rate					**73.0%**				
Financial Profile								**A**	**Baa**
Factor 4: Financial Flexibility (25%)								**A**	**Baa**
Total Debt / EBITDA				**2.1x**					
EBITDA / Interest			**8.1x**						
Self-Managed Investments / Equity			**8.3%**						
Factor 5: Profitability & Volatility (15%)								**A**	**Baa**
Net Income Margin (5 yr ave)		**34.1%**							
Stability of Revenue Growth (20 qtr, YoY)				**9.3%**					
Aggregate Profile								**A3**	**Baa2**

[1] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis. [2] Unadjusted score is based on year-end 2011 figures.

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