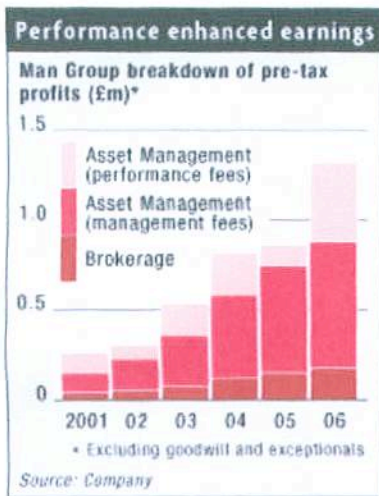




Lex: Man Group

>Published: June 1 2006 14:25 | Last updated: June 1 2006 14:25

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>The three geniuses who sold AHL to [Man Group](#) in 1995 must be as sick as dogs. The hedge fund group paid about \$20m for their blackbox trading system. Last year it generated Man \$305m in performance fees. The big question remains whether Man's reliance on AHL compromises the quality of its impressive earnings growth. Man trades on 14 times trailing earnings. Excluding AHL's performance fees, that rises to 18 times and, excluding AHL's normal fees too, 27 times.

Man is in this position for happy reasons. AHL, which relies on quantitative trading techniques, has produced an 18 per cent annualised compound return since 1990. After a wobble early last year it has since bounced back strongly. As a result Man is less diversified than last year, in spite of efforts to promote funds-of-funds and new specialist products. The success of these efforts can also be questioned. Excluding AHL, funds under management grew by just 6 per cent in

fiscal 2005.

Management is frustrated that the market does not view performance fees, a third of last year's earnings, as recurrent. Yet caution is merited. AHL contributed two thirds of such fees. Man thinks AHL's maximum size is \$20bn, after which its performance may be compromised. Assuming a 15 per cent annual return, it will hit this level in a year. Even without new inflows, therefore, performance, and thus fees, might falter. AHL is often bundled with other products, so their growth partly depends on it. Of a recent \$2.3bn capital raising, 70 per cent of the proceeds went to AHL. Without the kicker of exposure to AHL, non-AHL inflows may falter.

Man is blessed with management continuity. The chairman and top three executives have each been at the company for over a decade. They have enjoyed incredible success, but it is not yet clear that Man's performance can outlive the maturity of its most famous product.

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The logo features the FT Financial Times logo on the left, followed by the text "FT Global Pharmaceutical and Biotechnology Conference" in white on a dark blue background.

Onward - and not at all sick as a dog

>By David Winton Harding

>Published: June 6 2006 03:00 | Last updated: June 6 2006 03:00

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From Mr David Winton Harding.

Sir, I refer to the Lex note on the joys and woes of the Man Group (June 2). I am the "H" of AHL, the inventors of Man's "black box" quantitative trading system and, as you correctly report, was also one of the principals who sold AHL to Man in 1995 for around \$30m. Since then, our system has been used by Man to generate the bulk of the returns for its clients of 15 per cent plus a year (plus the bulk of the billions of dollars of management fees enjoyed by shareholders and directors).

However, I want to correct the impression you left that I am "as sick as a dog". I used the sale proceeds to form Winton Capital Management to pursue research lines Man was less interested in following. Since 1997 Winton has gone from strength to strength in performance, funds under management and depth of research. We have \$5.5bn under management; we have produced a compound annual rate of return of 20 per cent and have a research team of nearly 50, including a fast-growing specialist unit based on campus at Oxford.

Most of our employees are engaged in fundamental scientific research designed to produce the "wonder systems" of tomorrow and to ensure that Winton and its clients benefit from the paradigm shift in the global investment management business enabled by the conjunction of technology and globalisation.

David Winton Harding,

Managing Director,

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London W8 6LS

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