

## MORE ASSET MANAGERS SEEN IN 2011

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Mergers-and-acquisitions activity in the asset management industry will increase this year, according to investment bankers serving the industry, although no one expects the mega-transactions of 2009.

"Boards are getting restless," said Donald Putnam, managing partner at Grail Partners LLC.

Companies are "eager for strategic growth and they forget the pain of integration," he said.

After the market crash in 2008, financial giants including Ameriprise Financial Inc., Bank of America Corp. and Morgan Stanley divested their asset management divisions to focus on their core businesses. Deals of that magnitude are unlikely this year, industry observers said, although deals on a smaller scale are expected.

Driving deal making are the improving economy and equity markets, which give buyers and sellers greater latitude, bankers said.

Sellers are willing to be more creative in their negotiations to make up for somewhat depressed valuations, said Aaron Dorr, managing director at Jefferies Group Inc.

"More-creative deal structuring will bridge the gap between the bid and ask," he said. "I have already seen that in the things we are working on."

For example, some sellers are open to the idea of selling for a lower valuation in exchange for retaining long-term equity in the firm, Mr. Dorr said.

Last year saw 127 deals involving asset managers, compared with 148 in 2009, according to Jefferies.

In a plentiful year, there are usually between 300 and 400 deals, according to **Daniel Seivert**, managing partner and chief executive of **Echelon Partners**, who predicts that about 250 transactions will take place this year.

Multiples are also up, bankers said, in some instances reaching levels not seen since before the market meltdown.

For example, the Royal Bank of Canada bought U.K. fixed-income manager BlueBay Asset Management PLC in October for \$1.53 billion — about 18 times its expected 2011 earnings.

Since the market crisis, multiples on acquisitions have ranged from about seven to 10 times earnings, said Benjamin Phillips, director of research and a partner at Casey Quirk & Associates LLC, a consultant to investment management firms.

“Pricing is recovering, and that shows that buyers are more confident that the marketplace has stabilized enough that they can make an investment and build,” he said.

However, bankers and consultants agree that M&A activity in the asset management industry this year will be made up largely of smaller, more focused deals.

“There may be a handful of big deals, given the competitiveness of the marketplace and cash position that some firms have,” Mr. Sievert said.

Many asset managers have increased their cash positions over the past few years, and that might spur some increased activity, experts said.

For example, Franklin Resources Inc. had \$4 billion in cash as of Sept. 30 — its highest cash position ever. Less than two months later, the asset manager announced back-to-back deals.

On Nov. 17, Franklin purchased a 20% stake in Pelagos Capital Management LLC, an alternative investment provider with \$477 million in assets under management. The next day, the firm's London subsidiary, Franklin Templeton Global Investors Ltd., announced the acquisition of Rensburg Fund Management Ltd., a Leeds, U.K.-based subsidiary of Investec PLC, for \$72 million.

The two deals help fill out Franklin's product line and expand its geographic reach, and bankers said that they are examples of the types of smaller deals that likely will be the norm this year.

In that regard, many potential buyers are traditional long-only asset managers seeking to round out their offerings, Mr. Seivert said.

Also driving many deals this year will be a desire by domestic firms to expand internationally, said Robert Lee, an analyst with Keefe Bruyette & Woods Inc.

"Business is growing faster outside of the U.S.," he said.

Such deals satisfy clients' desire for more international products by bringing in global expertise for U.S. investors, as well as expanding distribution abroad.

Affiliated Managers Group Inc., Federated Investors Inc. and Legg Mason Inc. have said that they are looking to make acquisitions abroad.

In one sizable potential deal, UniCredit SPA of Milan is looking to sell its Pioneer Global Asset Management unit. Ameriprise Financial Inc., Amundi Asset Management and Natixis have been reported as possible bidders.

Because it restricts certain banking activities, the Dodd-Frank Act also may encourage asset manager acquisitions, observers said.

"If you are a bank and you have been pushed into boring, low-margin businesses, holding a stake in an asset manager may be a good thing," Mr. Phillips said.

And unlike other bank activities, asset management doesn't consume the balance sheet, Mr. Lee said.

"It's not a capital-intensive business," he said. "The regulatory environment may drive some firms to want asset management."

## ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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