

MERRILL, BLACKROCK SALES COULD JUMP WITH MERGER

Originally Published By Tom Leswing, Ignites

The recent Merrill Lynch deal with BlackRock will help both firms become more competitive in pitching fund products, analysts say. At the same time, it is creating a firm with a broad lineup of complementary products.

Merrill announced yesterday that it was merging its asset management arm with BlackRock, creating a firm with nearly \$1 trillion in assets under management. As part of the deal, Merrill will become a 49.8% owner in the resulting company, which will use the BlackRock moniker.

BlackRock's current CEO, Laurence Fink, will serve as chairman and CEO of the new entity, and Ralph Schlosstein will continue in his post of president and director. Robert Doll, the president and chief investment officer of Merrill Lynch Investment Managers, will become vice chairman and chief investment officer of global equities. He will head up the firm's private client operating committee.

The U.S.-based fund lineup for the new group will consist of 108 open-end and closed-end funds currently offered by Merrill Lynch and more than 100 funds currently offered by BlackRock.

While the deal creates a fund family with over 200 funds, it also provides opportunities for enhanced distribution and improved economy-of-scale savings, says **Dan Seivert**, a managing partner with **3C Partners**. The firm is a merchant bank that offers investment banking and provides advisory services for mergers and acquisitions.

Economy of scale refers to the benefits of having a large amount of assets under management and a large base of clients. Under such a situation, costs of running an investment firm or, for that matter, an individual fund can be spread out among many customers. That means a firm can charge lower fees and still be profitable.

"Both firms are sizable enough that they have been enjoying good margins and economy of scale," Seivert says. "But on a fund-by-fund level, it's more likely with the merger that each fund will carry its own weight."

By combining the two fund families, fixed expenses can be spread out among an even larger group of funds, he explains. In addition, the merger will combine the distribution clout of the two firms. Consequently, the resulting firm will be more likely to raise enough assets to make even its smaller funds profitable, he says.

Merrill Lynch Investment Managers, which offers Merrill Lynch's funds, has had a hard time pitching its funds, says Claudia Fogelin, a partner with Interactive Communications. The firm provides distribution consulting and wholesaler training services.

The difficulty results, in part, because the firm is a subsidiary of broker-dealer Merrill Lynch, she says. "Merrill just hasn't been able to get the third-party distribution that it's wanted," Fogelin says. "But BlackRock has a very strong sales team."

Merrill Lynch funds will benefit from BlackRock's third-party distribution relationships, she explains. In addition, the funds will benefit by being part of BlackRock, rather than being offered by Merrill. As a result, other broker-dealers will be less likely to perceive the products as being offered from a competing broker.

Fogelin adds that Merrill Lynch was also meeting resistance with pitching the funds through its own brokers. In general, brokerage firms are having a tough time with pitching funds through their own financial advisors.

With compliance concerns propelled into the spotlight during the past few years, brokers want to avoid

conflicts of interest, she explains. With that in mind, many don't want to use funds offered by their own firms.

Merrill has been working to combat that problem, points out Craig Woker, an associate director of equities research at Morningstar.

Just two weeks ago, it announced it was renaming Merrill Lynch Investment Managers as Princeton Portfolio Research & Management. It initially said the name was appealing, in part, because Princeton University is highly regarded. Princeton quickly objected to that statement, explaining that there is no connection between Merrill and the school.

By rolling out the funds under the BlackRock name, Merrill Lynch can avoid the Princeton branding issue, Woker says. It also lets Merrill avoid the marketing expenses of building brand recognition that would be needed if it adopted a new name for its investment management area.

"Merrill has always bumped up against issues when using the Merrill name," he says. "Now, they inherit a name that already has brand recognition."

While Merrill will get third-party distribution, the deal may also help pump up sales for the current BlackRock funds, Woker adds. That's because Merrill's current wholesalers have relationships with Merrill brokers. That will allow them to pitch the BlackRock funds to the brokers, Woker says.

He adds that Merrill Lynch is strong in equity management, while BlackRock is well-known for its fixed-income products. With that mind, combining the two asset managers will result in a complementary fund offering, he says.

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.

Daniel Seivert

Managing Director

dseivert@echelon-group.com