Alternative Invesment Sector is Top M&A Target

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It's shaping up to be a very good year for alternative investments and asset managers.

A record level of over 50 per cent of first quarter global asset management transactions involved acquisitions of alternative managers, double the volume from the same period last year, according to a mergers and acquisitions report issued by Jefferies & Co's Financial Institutions Group.

"Alternative asset management businesses continue to be among the most sought after targets based on their expected future growth," said Aaron Dorr, managing director in Jefferies' Financial Institutions Group, in a statement.

What's more, industry executives are predicting growing interest in alternative investments at the retail level.

At the Tiburon CEO Summit in New York this week, Tony Batman, chief executive for 1st Global, a Dallas-based wealth management consulting and practice development company, said he expects an "explosion" of hedge funds, hedge fund-like products and fund of funds to be created for the mass market.

"These products are moving downscale, and while investors have to be OK with some illiquidity," Batman said. "But for those who are, we think there will be a very receptive market."

As reported by this publication earlier in the week, wealth managers are returning to the alternative investment space, having received a bloody nose in 2008 when hedge funds suffered their worst ever year for returns, down by around 19 per cent, according to Hedge Fund Research. However, the sector bounced back last year. On the private equity side, historical evidence has shown that funds started in a recession year typically prove to be the best vintages in terms of long-run performance. Commodity markets have also, meanwhile, resumed an upward track in recent months.

Independent advisors

Independent advisors will help drive demand, said industry consultant Tim Welsh, president of Nexus Strategy of Larkspur, California.

"The alternative space is going to be red-hot," Welsh said. "Modern portfolio theory didn't exactly shine for the last year and half, and advisors are looking for new stories. Alternatives will be very important to balance out portfolios. They will provide non-correlated assets and better yield on the fixed-income side."

The asset management industry is paying attention, said Bing Waldert, director for Cerulli Associates.

"Firms are adding intellectual capital from the long-only space," Waldert said. "Most of the acquirers will probably be long-only asset managers who don't have alternative expertise in-house and want to diversify their business model and expand their business."

But investment banker **Dan Seivert**, chief executive and managing partner for **Echelon Partners**, was more cautious.

"There's no question alternative managers were highly sought after in 2006 and 2007, but there was a huge drop off of interest on the buying side for the last two years, and few properties for sale," Seivert said. "Interest is definitely increasing, but it's not back to where it was. Interest is outpacing reality to act on the buy side."

The most likely sellers, he added, were alternative managers who demonstrated superior performance in the "challenged environment" during the financial crisis by using techniques such as hedging or M&A arbitrage.

"These firms may be looking for a full or partial liquidity event," Seivert said.

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