Managers Planning Buys to Fill Product Gaps

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Small managers with good performance – but that might be struggling financially – could find themselves saved by selling out, as a number of large managers are said to be anxious to use acquisitions to fill in gaps in their product lines. BNY Mellon,Legg Mason, Franklin Resources and Affiliated Managers Group are all on the lookout for "fill-in" acquisitions, according to a recent report by Keefe, Bruyette & Woods.

These larger, publicly-traded companies are seeing plenty of opportunities to complement their product rosters at attractive prices and are more than willing to pull the trigger, KBW says, if the right deal comes along.

KBW analyst Robert Lee says many institutional investors are looking to deal with fewer asset managers these days, which means they are looking for managers that offer multiple product lines.

"This highlights the need for scale and a diversified product offering," says Lee. "Scale is particularly important in certain asset classes and product lines, particularly low-fee and 'beta' products such as money market and index funds. These considerations may cause some small- to mid-sized asset managers to reconsider their longer-term strategy and ability to compete effectively as stand-alone enterprises."

In fact, BNY Mellon agreed last week to pay $386 million to acquire the majority of Insight, the $132 billion investment unit of British bank Lloyds that specializes in liability-driven investments. BNY Mellon now plans to distribute Insight's LDI products in the U.S., Japan, and Europe. While Insight is not a small manager, it does highlight how a large manager acquired another firm in order to close a gap.

Other examples of large, public firms looking to grow through acquisitions include Aberdeen Asset Management and Invesco. But it isn't just the giants of the business that are making moves, states **Dan Seivert**, CEO and managing partner of strategic consultant **Echelon Partners**.

Seivert has seen similar deals going on with smaller, non-public asset managers. One example he has seen involves larger, healthier managers that need to replace a poorly performing strategy or an empty product slot. "This is a great time to buy for these managers," says Seivert, adding that it's a buyers market for the most part.

He notes that sellers are also motivated in many instances. One scenario that Seivert has seen involves managers that have less than $1 billion under management and, in some cases, poor performance.

"The markets are still down considerably from their peak and the economics of [running] a business is tough," he says, adding many investors have been choosing to go with larger, more established managers. "Some firms need a white knight to bail them out."

Lee adds that "fill-in" type acquisitions are attractive options because they tend to be less disruptive than "transformative" acquisitions due to their smaller scale. In addition, Lee notes these types of buys cost less –

making them more economically feasible – and says firms have good chances of growing the newly-acquired strategies organically.

One of the driving factors making these transactions possible is the recent market rebound. As the markets have risen, so have the valuations of public firms, which, in-turn, allows companies to use their stock for transactions.

Despite KBW's views that a majority of upcoming deals will be of the "fill-in" nature, there is a handful of larger publicly-traded companies that KBW believes could also pull off a large acquisition. He specifically lists Franklin Resources and, of course, BNY Mellon as firms well positioned for large acquisitions.

Both firms have significant market capitalization and assets under management and could be in the market of growing their asset management businesses, he says. While Lee could see both firms pulling off large deals, he would also not be surprised by "fill-in" type transactions in the near term, either.

The KBW report came out a few days before BNY Mellon announced its Insight acquisition. A BNY Mellon official, however, told Dow Jones that, in spite of that purchase, the firm is still interested in further acquisitions.

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