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Private Capital and Hungry Managers Stoke M&A Deals

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The current market environment is ripe for asset manager mergers and acquisitions, say industry experts, driven by demand from deal-seeking private equity funds and managers looking to fill their own specific product gaps.

So far this year, M&A activity among U.S. asset managers dwarfs recent years in terms of deal value, while the number of deals is already set to match last year's figure, as reported.

The buoyant market means managers looking to align with a larger rival, or sell to a private equity firm, will have a better shot now than in prior years.

"It's a much more stable environment than where we were five to 10 years ago," says **Steve Levitt**, managing director and co-founder of Park Sutton Advisors, where he works on asset manager M&A deals.

He says TIAA-CREF's $6.25 billion purchase of Nuveen Investments – the largest deal announced so far this year, accounting for half of overall deal value in 2014 – is an extreme example of current M&A appetite. More telling, he says, is the recent $200 million acquisition of Milwaukee-based **Geneva Capital Management** by Anglo-Australian manager Henderson Global Investors – a deal Levitt worked on – as the type of mid-sized deal propelling the market.

"We're seeing buyers being more comfortable again writing larger check sizes," he says. "I think the Nuveen deal is an outlier, but I can remember five to six years ago there was so much uncertainty. Buyers were unwilling to write a $50 million to $100 million check. Now, buyers will write larger checks for the right opportunities."

Recent acquisition activity has centered upon firms wanting to expand into a product or asset class instead of growing their core assets under management, rendering certain products especially attractive, Levitt says.

"I would say you have a strong interest in high-quality boutiques in specific asset classes," he says. "There continues to be very strong interest in inter-global and emerging market products and alternatives."

Managers that already have units dedicated to such products also are registering interest to buy boutique shops as they see continued flows to these asset classes, he adds.

Private equity firms, which are more active than ever in the investment management industry, are also feeding the demand, according to M&A deal advisor **Jeff Bechtel**, managing member of **Mitchell, Hartley & Bechtel Advisors**.

"Private equity investors are currently very active in the asset management industry, both as buyers and sellers," he says.

Although recent deal activity has not reached the most recent highs of 2009, that spike was driven by large financial institutions such as banks selling off asset management divisions. The current spate of deals reflects a healthier, organic market, he says.

This growth, in turn, is driving activity across the board, Bechtel says. Still, he says private equity investment activity is not overheating the market and having a negative impact on asset managers looking to grow through acquisitions, because the funds are appearing on both sides of deals.

"Given the favorable market environment, a number of private equity firms are opportunistically exiting prior asset management investments while being quite competitive in deploying capital into new ones," Bechtel adds.

Firms looking for organic growth but that might not have the capital for an acquisition, are also turning to lift-outs, whereby individual teams decamp from one firm to another, often for improved remuneration and greater autonomy. These moves are becoming increasingly common, says **Mark Yancey**, managing partner of **Attacca International**, a firm specializing in such arrangements.

Yancey set up Attacca this year and has facilitated two such deals, including a recent asset management lift-out of a team with less than 10 members. He says lift-outs are a cheaper option compared to an acquisition, but they rely on all or most of a team’s members supporting the move – especially key individuals.

"When you do a lift-out, you need to take [most of the] team with you to bring the success you’ve had at the other firm with you," he says.

Yancey adds that firms losing a team may strike profit or revenue sharing-type deals with departing teams, creating a win-win situation.

But the share of assets under management an exiting team brings with them can vary.

"As a rule of thumb, if you can get 20%-30% of the asset base you currently manage, you should consider that a victory," he says.