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Bull run 'coming to an end' fuels M&A activity

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By Anna Devine

The end of a capital markets bull run is prompting smaller firms to cash in and sell out to large asset managers, say experts.

Deals struck by Franklin Templeton Investments and Natixis Investment Managers this month show that significant fee pressure is also leading traditional asset managers to diversify their product offering.

Kevin Pakenham, co-founder of Pakenham Partners, an independent merger and acquisition consultancy, says: “To the cynic these deals in asset management suggest we are coming to the end of a long bull run.”

Manager owners of small businesses are “selling out” to the big diversified global managers and derisking their personal equity at good prices, he says.

The bull run has also “cashed up” bigger players, which “need to continually diversify and improve their specialist offerings”, says Mr Pakenham.

Jonathan Doolan, principal at Casey Quirk, an asset management consultancy, says predictions about “very attractive” capital markets coming to an end and slower organic growth is driving M&A activity.

Deals are a win win for both parties, he says, with some smaller firms struggling to acquire new clients and large traditional players under pressure to maintain profit margins.

“Smaller guys with interesting value propositions, like infrastructure or alternative assets, are in high demand [as acquisition targets],” says Mr Doolan.

This month Natixis Investment Managers, the €813.1bn (€663.3bn) asset manager, said it was purchasing a minority stake in specialist aircraft leasing firm Airborne Capital, which has plans to expand assets to $5bn in the next five years.

Franklin Templeton Investments, which oversees $753bn in assets, also agreed to buy $10bn UK fund house Edinburgh Partners, welcoming a former alumnus back into the fold as chairman of its global equity business.

Mr Doolan says traditional firms that have succeeded in distribution are now looking at how they can develop different investment capabilities or improve current offerings.

Alternative strategies are “much less susceptible” to fee pressure or “oversaturation” compared with traditional products.

Most M&A activity is concerned with acquiring new products or increasing geographical spread, says Colin Leaver, partner at Simmons & Simmons.

Firms want to offer a complete suite of products to their client base to dissuade investors from spending “too much time talking to” their rivals.

Big institutional managers are spending more time “proactively” searching for potential M&A targets compared with two to three years previously, adds Mr Leaver.

Many are targeting financial technology firms to explore ways in which to improve investment performance.

Ray Soudah, chairman and founding partner of MilleniumAssociates, an M&A advisory firm, says a main feature of future deal making in the UK will be firms acquiring investment performance from smaller rivals to increase relative attractiveness of fund performance in-house.

He says he also expects a “larger number” of deals in the year ahead to be driven by the leveraging of cost bases.

“A further expectation is that the larger private banks will seek to acquire asset managers in their belief, not always justified, that in-house asset management is what their clients want or is a strategy to capture a greater share of the value chain,” he adds.

The Franklin and Natixis deals come at a time of notable consolidation in the active industry.

Last year large active houses Standard Life and Aberdeen, Amundi and Pioneer, as well as Henderson and Janus, all merged.

Natixis was also linked to a possible tie-up with the investment arm of Axa.

BlackRock, the world’s largest money manager, took a minority stake in robo-adviser Scalable Capital.

There has also been a pattern of consolidation in the ETF market, with Invesco Powershares buying Source and ETF Securities selling some of its business to WisdomTree.

Edinburgh Partners’ chief executive officer, Sandy Nairn, is to retain his position after Franklin’s purchase, expected to complete in the first half of 2018.

He will also become chairman of Templeton global equity group, adding to Franklin's equity capabilities, and following the retirement of Franklin's emerging market veteran Mark Mobius.