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Transatlantic deals accelerate

Drawn by attractive valuations and an anticipated economic recovery, North American investors in 2013 parked more money into European equities than they have since 1996 as a percent of market capitalization, according to a recent Financial Times analysis. The trend continued into the early part of this year, with U.S. investors adding more than $24 billion to European equity funds through mid-February, according to EPFR Global.

But the investment managers making those decisions aren't the only ones eyeing Europe. North American financial firms have also shown a marked strategic interest in Europe's asset managers as they seek a more diversified global presence, broader product capabilities, and expanded distribution.

In 2013 and the first quarter of 2014, the U.S. buyers read like an industry Who's Who, with **BlackRock**, **New York Life Insurance** and **Warburg Pincus** all concluding significant European transactions. **AllianceBernstein** joined the list on a smaller scale this February when it acquired a majority stake in Denmark's **CPH Capital**, which manages €2.2 billion ($3 billion) in global equity portfolios for institutions.

The Americans are being joined by Canadian firms, which since the financial crisis have employed their financial strength to expand internationally, including in Europe. Last year, **Great-West Lifeco** of Winnipeg paid €1.3 billion ($1.7 billion) for **Irish Life**, giving it control of Ireland's largest domestic asset manager, **Irish Life Investment Managers** (AUM: €37 billion/$50 billion). In January of this year, **BMO Financial Group** made a £700 million ($1.2 billion) public offer for London fund manager **F&C Asset Management**. Japan's **Orix Corp.** joined the mix, concluding the largest deal of 2013 when it paid €1.9 billion ($2.6 billion) for Dutch asset manager **Robeco**.

Cross border transactions have been a significant part of asset management dealmaking since the late 1990s. In fact, the record of $18.6 billion for such transactions was set 14 years ago, driven by numerous and pricey billion-dollar-plus transatlantic deals in the heady days after the creation of the euro zone. As emerging markets grew increasingly attractive in the years that followed, deal activity expanded there.

But the financial crisis put a crimp in cross border activity, as firms zeroed in on domestic consolidation opportunities. The five-year average of cross border transactions between 2008 and 2012 was $5 billion — less than half the level prevailing in the three years through 2007. Last year represented a solid rebound, with $7.8 billion in cross border asset management deals and several high-profile transactions. That bump also occurred against an 18% decline in the overall cross border M&A universe, according to Thomson Reuters. The pickup in activity in Europe was particularly noteworthy, and is reflective of the ongoing restructuring of the region's financial services industry, with non-European firms capitalizing on that change to expand their global capabilities.

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Dexia Asset Management (DAM) is an example of a forced restructuring divestiture. Its former parent, **Dexia**, is a Franco-Belgian banking group that was among the earliest European casualties of the financial crisis, requiring multiple bailouts, debt guarantees and ultimately a restructuring and takeover by the Belgian and French governments in 2012. As Dexia began a divestment process that has become a ritual for distressed banks worldwide, it reached agreement in December 2012 to sell DAM to Hong Kong private equity firm **GCS Capital** for €380 million ($500 million). In mid-2013, the deal collapsed when GCS reportedly could not finance the transaction. New York Life stepped in to fill the void for the same price — the largest asset management deal in its history — and in the process became a global asset management player of scale.

In acquiring DAM, New York Life added €74 billion ($100 billion) in AUM to the $390 billion it already managed, a solid European product and distribution platform, and an Australian business via **Ausbil Dexia**. New York Life said the deal demonstrated a "commitment to the global asset management business which provides important earnings diversification for our company." The insurer's fast-growing business managing third-party assets was also given a boost. DAM, which this year changed its name to **Candriam** ("Conviction and Responsibility in Asset Management"), cited the benefits of its new parent's "support and resources."

New York's Warburg Pincus has been an active investor in asset managers of late, too. Last year, it teamed with another U.S. private equity player, **General Atlantic**, to take a 50% stake in **Santander Asset Management**, a unit of Spanish bank **Santander**. The €1 billion ($1.3 billion) deal gave the two firms an interest in a company with €152 billion ($196 billion) in AUM and operations in 11 markets in Europe and Latin America. It also furthered the existing partnership Warburg and Santander have through the Spanish bank's U.S. consumer finance unit. The three partners aim to double assets in five years and "participate in the consolidation process taking place in the industry."

Warburg has also been part of an aggressive recent effort by American firms to get a piece of Europe's exchange traded fund market, which recorded 20% growth last year to approach $400 billion in AUM. In January, Warburg bought a majority stake in London-based ETF firm **Source** (AUM: $15 billion), a deal that both firms said would help accelerate Source's growth. Warburg Executive-in-Residence Lee Kranefuss, who served as chief executive of the **iShares** ETF business for nine years, was named executive chairman of Source, with ambitions to turn it into a top-three ETF player in Europe.

Independent ETF provider **WisdomTree Investments** cut a deal in January for another London firm, **Boost**, a short and leveraged ETF specialist with $75 million in AUM ($209 million including leverage). New York-based WisdomTree, which will invest $20 million to build out a European platform, said the deal represented another of its "measured steps... to participate in global ETF market growth."

The dominant ETF provider, BlackRock, last year enhanced its position by acquiring **Credit Suisse**'s European ETF business, among the five largest in the region with $18 billion in AUM and about half the assets domiciled in the important Swiss market. In an earnings conference call after the acquisition, BlackRock Managing Director Mark Wiedman said the acquisition provides a foundation for "offering a broader Swiss complement beyond just ETFs." Credit Suisse has been restructuring its business, including divesting some asset management and private banking operations. New York's **Guggenheim Partners** has also expressed interest in acquiring its way into Europe's ETF market.

BlackRock made another cross border deal last year when it bought the private equity real estate advisory firm **MGPA**. While the transaction was small within the context of BlackRock's overall business, adding just $12 billion in AUM, it had outsized strategic value, expanding the firm's alternative capabilities and adding real estate expertise and assets in Asia and Europe. Prior to the deal, BlackRock's real estate advisory business was centered in the U.S. and U.K. BlackRock said the deal created a "truly global real estate investment manager."

The major cross border deal announced in Europe in the first quarter involved BMO Financial Group's bid for publicly traded F&C. One of Canada's "big five" banks, BMO aims to become a top-50 global asset manager by 2017. During an interview last September with the *Financial Times*, **BMO Global Asset Management** co-CEO Rajiv Silgardo confidently predicted that AUM would more than double to $300 billion by then. Toward that end, the company has been aggressively cutting strategic asset management deals in recent years, including three in Asia in 2011-2012 and one in the U.S. in 2012.

The bid for F&C significantly accelerates that 2017 timetable: With £82 billion ($136 billion) in AUM at year-end 2013, F&C would double the Canadian bank's AUM to $270 billion. BMO's offer, which was approved by shareholders but is still subject to certain conditions, is valued at 9.4 times EBITDA and less than 1% of AUM. The offer represented a 28% premium to F&C's share price on the day the deal was announced. With 99% of its business in Europe, F&C would immediately establish a strong beachhead in the region for BMO, which has just 4% of its AUM in Europe. F&C's business is heavily weighted toward the U.K. and Netherlands, accounting for three-quarters of AUM. Additionally, F&C's fixed income orientation meshes with BMO's equity focus.

In a conference call announcing the deal, BMO CEO Bill Downe said F&C "helps round out what is a broad global offering" and touted the timing: "We can see the emergence of possible economic growth in Europe sooner, perhaps, than some had expected." For F&C, BMO holds the promise of greater product distribution. In North America, for example, the company has a negligible presence. BMO's scale and financial support could also help F&C rebound from what has been a challenging past few years marked by management shakeups and fund outflows. In March, for example, F&C lost an additional £12 billion mandate from one of its strategic partners.

The U.K. market in which F&C operates also faces particular pressures, as new regulations in the way fund platforms operate could squeeze the profits of some asset managers, as the traditional commission model for advisers and brokers gives way to a fee-based structure and greater transparency for investors. The platforms are in turn pressing fund managers for lower fees.

In a recent report, Fitch Ratings projected further rationalization in the European asset management industry as a whole, though it called “a widespread M&A spree unlikely,” saying “Most managers may opt for less intrusive strategies” to remain competitive, such as cost-cutting and rationalization of funds. Fitch notes, for example, that 65% of cross border fund ranges do not have a flagship with more than €1 billion in assets. But Fitch does see “further selective M&A activity” and cites alternative investors as being in particular demand as institutions “increasingly demand scale” from such firms.

Europe goes shopping, too

Although North American financial firms are farther along the recovery road than many of their European counterparts, providing them with the firepower to cut large deals, the transatlantic action isn’t all one-sided. In 2013, there were a couple of notable bolt-on deals by pure asset managers. One involved an opportunistic purchase, with **Aberdeen Asset Management** capitalizing on the woes of New York’s Artio Global Investors. The Scottish fund manager paid $180 million to buy Artio, which had $10.6 billion in AUM — just one-fifth the level it managed at the time of its $650 million initial public offering in 2009. For Aberdeen, the appeal involved Artio’s fixed income business, which suffered far less hemorrhaging than its equity business and fits with Aberdeen’s existing U.S. fixed income business.

France’s **Amundi** also picked up a fixed income business in acquiring **Smith Breeden Associates** (AUM: $6.4 billion). Amundi said the purchase of the North Carolina firm is a “significant contribution toward Amundi’s goal of creating a global fixed income platform with established regional expertise.” Smith Breeden cited Amundi’s ability to assist in the effort to create more global products designed to meet the needs of institutional clients.

This year, **Legal & General Group** of the U.K. made its first U.S. acquisition with the purchase of **Global Index Advisors** of Atlanta (AUM: $20 billion), a top-five target date funds specialist. L&G could pay as much as $50.4 million for the firm, with about one-third of that in performance-based incentives over a three-year period. While small, L&G’s U.S. business has grown rapidly to $35 billion in AUM since the firm set up shop in Chicago in 2006. L&G has also expanded its initial focus from liability-driven investing for pension plans to incorporate fixed income strategies. A few months before acquiring Global Index Advisors, L&G hired the managing director of global equity index at **Northern Trust** to be head of U.S. index funds. L&G said the deal will allow it to “accelerate our expansion in the U.S. [defined contribution] market.”

As firms from Europe and elsewhere in the world continue to show interest in the North American market, with a focus on both adding specific product capabilities and expanding distribution, the Legal & General-Global Index deal appears likely to be just the first among several in North America in 2014 involving European buyers. ▲