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Asset management M&A drive 'accelerated' by coronavirus crisis

BY **MIKE SHEEN**

THE CORONAVIRUS PANDEMIC put the brakes on merger and acquisition activity within asset and wealth (M&A) management in 2020, but as the global economy begins to reopen the impact of the crisis is expected to "accelerate" the pace of new deals within the sector.

Globally, there has been a strong start to 2021 with 314 asset and wealth management M&A deals completed as of 5 April, just short of the record 339 deals made over the same period in 2018, data from Refinitiv shows.

In the UK, the record has been broken with 63 deals so far in 2021, surpassing the previous record of 41 deals set in 2018.

Significant recent M&A deals have included the sale of BMO's EMEA asset management business to Columbia Threadneedle, and the ongoing negotiations for Amundi to acquire Lyxor.

Cost pressures stemming from regulation and the rise of passive investing have led to waves of M&A activity in the years since the Global Financial Crisis, which IM Global Partner founder and executive chair Philippe Couvrecelle said is a trend that has been "accelerated" by the most recent crisis to shock global markets.

"It is an acceleration of the trend, which means the strongest companies will grow faster, and the weakest will decline faster," he told *Investment Week*.

While consolidation of the sector has previously been described as a race to achieve scale, Couvrecelle said many mid-sized companies have greater capacity to be efficient and profitable than their larger counterparts, which are feeling the squeeze from cost pressures.

"The bigger you are, the more concerned you are," he added. "It is more difficult to grow when you are a huge company – it is not about scale, it is a matter of real value in the market and the real value that you bring to clients.

"Around 80% of the players in the active side of the industry are quite expensive, and not really efficient in terms of performance and return for clients. They are under attack by two sides of the market; the passive side, and talented boutiques."

A recent report from Bain & Company agreed with Couvrecelle's assessment that Covid-19 has "accelerated" challenges facing asset managers.

It found the key challenge for the largest asset managers turning to M&A to achieve scale will be to "sustain their nimbleness and innovation as their organisations become more complex and potentially more bureaucratic".

Last year saw 922 deals globally, with around $51bn worth of targets acquired, 109 of which were in the UK. This compares to similar numbers both in the UK and globally in the previous two years.

Managing director within investment bank Stephens Europe's financial services group Hugh Elwes explained that the crisis put the stoppers on the volume of deals that may have been in the works last year.

He said: "A lot of deals were held up by the pandemic. It was a period when you would not necessarily try and sell yourself because you might look under pressure.

"Things are now becoming much more normalised, so all the plans firms had to either buy or sell pre-pandemic are back again."

For the largest asset managers, Elwes said the market can expect to see a drive "to increase their capabilities in alternatives, which will drive quite a lot of [M&A] activity", particularly in areas such as infrastructure, specialist credit and property.

"Many large managers are underweight alternatives and will be seeking out capabilities," he added. "There will be [investment] team moves but also purchases of specialised businesses driven by investor demand, leading large managers to increase capabilities in alternatives."

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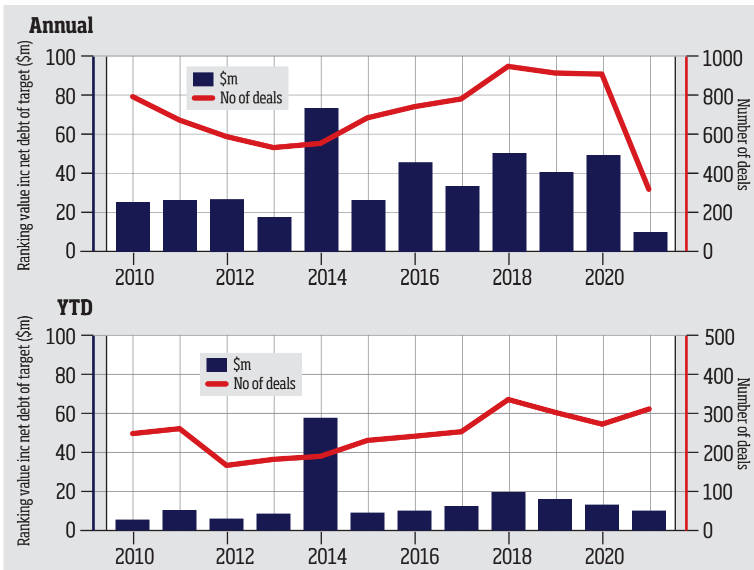
Asset management global M&A since 2010



Top 10 global asset management M&A deals

Target name	Acquiror name	Target value($m)
Wells Fargo Asset Management	GTCR and Reverence Capital Partners	2,100.00
Lyxor Asset Management SAS	Amundi SA	979.69
Bk Of Montreal-Emea Asset	Threadneedle Asset Mgmt Hldg	843.04
Quilter Intl	Utmost Hldg Isle Of Man Ltd	665.53
Shanghai Xingye Invest & Dvlp	Shanghai Fosun High Tech Grp	433.60
Primewe Grp Ltd	Centuria Capital Ltd	419.40
CMB Wealth Mgmt Co Ltd	JPMorgan Asset Mgmt (Asia	409.87
Colgin Finl Svcs Pty Ltd-Finl	Kidmans Partners Pty Ltd	340.78
AFH Financial Group PLC	Cortina Bidco Ltd	311.49
RF Capital Group Inc	Canaccord Genuity Group Inc	293.94

AS AT 5 MAY 2021. SOURCE: REFINITIV