

Asset/wealth managers feel the weight of regulation and market disruption

Financial institutions M&A: Sector trends

The asset/wealth management industry is consolidating at a rapid rate. Here's why:

Economies of scale: Regulatory pressures and back-office costs have increased exponentially

Higher market expectations: Investors demand more for less

Technology disruption: Emergence of disruptive new technology and digital solutions means many asset managers would rather eat than be killed

Asset/wealth management

New regulation, competition from fintech disruptors and ever-more sophisticated and demanding retail investors (wanting more for less) have forced asset/wealth managers to build scale through mergers of equals, acquisition of smaller players and buy-in of technology. The global financial crisis is behind them, but the new challenges are no less daunting.

Outlook

CURRENT MARKET

Upward, significant

WE ARE SEEING

- Market consolidation, particularly medium-sized and smaller deals. Mega-mergers remain a strong possibility
- Uptick in M&A involving banks:
 - Some banks are disposing of non-core asset/wealth management businesses
 - Other banks are attracted by stable returns and significant cross-selling opportunities from asset/wealth management
- Financial sponsors and foreign strategic buyers show strong appetite for asset/wealth management businesses
- Increasing focus on intra-group restructurings and outsourcing arrangements

KEY DRIVERS

- Profit margin squeeze from regulatory change. MiFID II has increased the cost of research, imposed restrictions on commission-based arrangements with brokers and levied stringent fee transparency requirements
- Investors have higher expectations:
 - Institutional investor demand for customised investment solutions and global products
 - Millennial attraction to the perception of lower costs associated with robo-advisory and online distribution
- Achieving economies of scale, operational synergies and greater access to the most talented asset allocation specialists
- Diversification and differentiation of product offerings through passive/alternative strategies as well as by tapping into new markets, geographies and distribution channels
- Upscaling of infrastructure to actively manage customer satisfaction—information sharing with customers (carefully orchestrated in volume and complexity) can be useful for stemming customer outflows due to short-term fluctuations
- Possible end of the capital markets bull run resulting in smaller asset/wealth managers selling out to larger ones
- Asset/wealth managers ramping up digital capabilities, process automation and innovation capacity
- US and Chinese inbound investment into Europe— weaker £/€ creates more opportunities for buyers paying in US\$

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Consolidation pressure on asset and wealth managers shows no sign of ebbing. Competition for targets and merger partners is stiff. Decisive deal execution has never commanded such a premium.

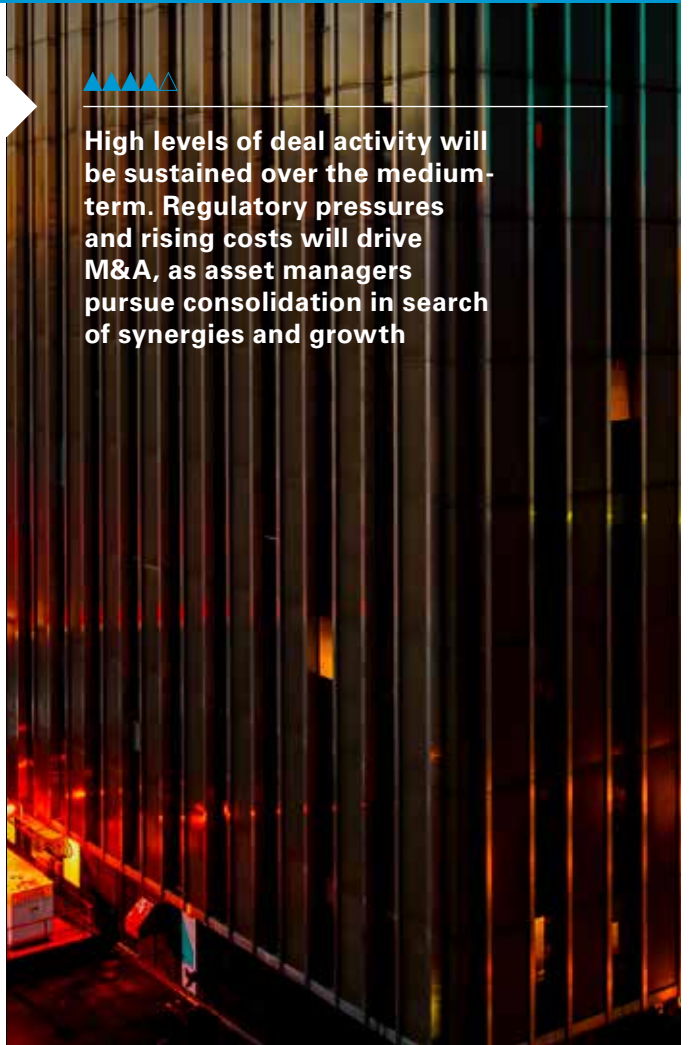
Our M&A forecast

TRENDS TO WATCH

- End of the post-financial crisis investment cycle. The ‘Goldilocks’ combination of strong growth and low inflation has fuelled demand for passive strategies. The next phase of the investment cycle could favour active strategies, resulting in an uptick in asset/wealth managers actively seeking to scale up
- Rise in intra-group restructurings, driven by cost savings, integration of newly acquired businesses, optimisation of internal resources and Brexit contingency planning
- Rise in outsourcing of back and middle office functions, together with increased deployment of fintech solutions
- Heightened regulatory scrutiny—national regulators being willing to prosecute anti-transparent business practices (e.g., UK FCA’s enforcement action against ‘closet trackers’)
- Expansion of traditional asset managers into private debt, including through peer-to-peer platforms



High levels of deal activity will be sustained over the medium-term. Regulatory pressures and rising costs will drive M&A, as asset managers pursue consolidation in search of synergies and growth



Asset/wealth management – Publicly reported deals & situations

M&A in asset management sector climbs to 8-year high*

Asset/wealth management is the most fragmented global finance sector, with the 32 largest managers having a collective market share of only 50%**

Market consolidation

Deal highlight

Oddo BHF's merger with Frankfurt-Trust created Europe's third-largest independent asset manager with AuM exceeding €60 billion

Larger:

Oddo BHF Asset Management & Frankfurt-Trust Investment Merger (May 2018)

Mid-sized:

Apex
Acquisition of Ipes (June 2018)

Union Bancaire Privée
Acquisition of Banque Carnegie Luxembourg (June 2018)

Indosuez Wealth Management
Acquisition Banca Leonardo (May 2018)

Banca Profilo
Acquisition of Dynagest (April 2018)

Athora
Acquisition of AEGON Ireland (April 2018)

Alm. Brand Bank
Acquisition of a majority stake in Saxo Privatbank (February 2018)

Natixis
Acquisition of a minority stake in Airborne Capital (January 2018)

Apex
Acquisition of M.M. Warburg's Luxembourg asset management and servicing business (January 2018)

Anima Holding
Acquisition of Aletti Gestielle (January 2018)

ActivumSG
Acquisition of fairvesta (January 2018)

Smaller:

ALTUS TFI & Esaliens TFI
Merger (June 2018)

GWM Investment Management
Acquisition of stake in Optimus Capital (May 2018)

Old Mutual Wealth Private Client Advisers
Acquisition of DG Pryde (May 2018)

Harwood Wealth Management
Acquisition of Fund Management and AE Financial Services (March – May 2018)

Catella
Acquisition of APAM (March 2018)

Ambassador & Antaurus
Merger (March 2018)

Sanlam UK
Acquisition of Grennan Advisers (February 2018)

Azimut Holding
Acquisition of funds from Sofia Gestione del Patrimonio (February 2018)

Quaero Capital
Acquisition of Tiburon Partners (January 2018)

Franklin Templeton
Acquisition of Edinburgh Partners (January 2018)

High buyer appetite

Financial sponsors:

Endeavor Catalyst and Fondazione di Sardegna

Equity investment into Moneyfarm (May 2018)

Toscafund

Minority equity investment into Plurimi (May 2018)

Dragon Capital

Acquisition of Investcapital (April 2018)

Foreign:

Federated Investors

Acquisition of 60% of Hermes Fund Managers (April 2018)

Brookfield Asset Management

Acquisition of 25% of LCM Partners (March 2018)

Fosun Group

Acquisition of Guide Investimentos (February 2018)

Storebrand Asset Management

Reported exploration of European M&A opportunities (February 2018)

Intra-group restructurings & outsourcings

Deal highlight

The Janus Henderson mega-merger-of-equals created a global business with AuM of US\$331 billion in 2017. To realise the expected US\$110 million of cost synergies, the outsourcing of back-and middle-office functions was a "must have"

Credit Suisse US

Establishment of its Directs & Co-Investments Group (April 2018)

Janus Henderson

Outsourcing of back and middle-office functions to BNP Paribas Securities (April 2018)

Standard Life Aberdeen

Disposal of its insurance business to focus on investment services (February 2018)

UBS

Merger of US and international wealth management divisions (January 2018)

Old Mutual Ltd

Acquisition of Old Mutual Plc (January 2018)

Expanding into new markets

Fidante Partners

Acquisition of a minority stake in Latigo Partners (March 2018)

Differing bank prerogatives

Non-core disposals:

Banco BPM

Disposal of Aletti Gestielle
(January 2018)

Nordea

Disposal of its Luxembourg-based private banking business
(January 2018)

AXA

Disposal of AXA Wealth Management
(January 2018)

Banks searching for stable returns:

Deutsche Bank

Partial Frankfurt Stock Exchange float of its asset management unit
(March 2018)

Julius Bär

Acquisition of the remaining stake in Kairos Investment Management and 95% of Reliance Group
(January – June 2018)

Shifting regulatory/political landscape

Deal highlight

Less than half of the major asset/wealth managers with material UK operations have publicly disclosed their post-Brexit restructuring plans****

Impact of other regulatory changes:

Greater transparency for consumers

UK FCA's requirement for firms to issue investor annual reports showing how they offer value for money
(April 2018)

UK FCA's approval for asset managers to provide additional explanatory materials alongside performance forecasts
(January 2018)

Uptick in enforcement action

UK FCA's requirement of payment of £34m in compensation to investors and ongoing enforcement investigation into an (unnamed) firm in connection with anti-transparent descriptions of how investors' money is managed
(March 2018)

Possible impact of Brexit:

Hubs outside the UK

Larger asset managers establishing business hubs outside the UK (e.g., *Standard Life Aberdeen's investment and distribution business in Dublin*)
(February 2018)

Exclusion of UK asset managers from European markets

European Commission's warning of 'shutout' for UK asset managers
(February 2018)

UK needing to do more to attract asset managers

Possibility of favourable tax treatment for asset managers who relocate cash resources to the UK post-Brexit
(January 2018)

Technological advancement

Blockchain is estimated to save asset managers US\$2.7 billion per year***

Established players believe the hype:

Schroders

Acquisition of minority interest in WelInvest (June 2018)

Invesco

Acquisition of Intelliflo (June 2018)

Taaleri Wealth Management

Acquisition of Evervest (May 2018)

Warburg Bank

Launch and expansion of robo-adviser Vermögensverwaltung (March 2018)

Standard Life Aberdeen

Digital fund management services JV with Virgin Money (March 2018)

Brown Brothers Harriman

Launch of InfoNAV (March 2018)

Natixis

Acquisition of the remaining stake in Dalenys (February 2018)

BlackRock

New Palo Alto AI research facility (February 2018)

The Investment Association

Launch of VeloCity (February 2018)

Allfunds

Acquisition of Finamatrix (January 2018)

Growing competition from new entrants:

Scalable Capital

AuM of €1bn (May 2018)

Surge of passive investment strategies

Global ETF industry has exceeded the US\$5tn barrier, with new European business inflows doubling in 2017***

Riding the trend:

Mirae Asset

Acquisition of Global X (February 2018)

BlackRock

iShares ETF arm's 76% growth in 2017 (January 2018)

* Source: Financial Times (January 2018)
** Source: Financial Times (May 2018)
*** Source: Financial Times (February 2018)
**** Source: Financial Times (June 2018)

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