

Euro view: More mergers and acquisitions, please

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Too few asset managers are merging and acquiring each other, according to the head of international retail at one of the industry's leading consolidators, although a large number of deals have already completed this year.

James Charrington, managing director at BlackRock, believes there is too much slack in the market and admits his employer gets approached every week by companies wanting to be acquired by the US giant, which is set to run more money than any other manager following its acquisition of Barclays Global Investors.

He suggests that too many managers are failing to add value and that a lot of houses "deserve to disappear".

"Ten years ago, I thought we were about to embark on a considerable wave of consolidation, but those managers that were particularly vulnerable - managers of medium size - were bailed out by the bull market," he says.

"This time around they will not be so lucky. Middle-sized managers will be squeezed out. Their business will run down and gravitate towards those firms that deserve it."

His comments - made at last month's Efama conference in Brussels - come as BlackRock completes its £13.5bn tie-up with BGI, which will see assets under management shoot up to \$2.7trn (£1.8trn).

As the BlackRock tie-up was being finalised, the last three months witnessed a frenetic round of deals, which saw Lloyds announce the sale of Insight Investment Management to BNY Mellon and Bank of America offload the long-term asset management business of Columbia to Ameriprise Financial, which owns Threadneedle.

Deal volumes also rose to \$4.5bn in the third quarter from \$4.2bn in the same period last year, while the average deal value stood at \$140m - nearly twice that of the corresponding quarter in 2008.

For Mr Charrington, this is not enough. "There is definitely increased activity, but still not as many deals will get done as need to. Asset management is a very people-intensive business, made up of a lot of clever people. Trying to merge some of those clever people together, who also have a great deal of pride, makes such mergers especially tricky to carry out."

Unsurprisingly, the deals he says will work best are those that involve a pure asset manager converging with another pure asset house.

"These are the ones that will add a great amount of value," he says. "More deals are likely to take place because many banks are desperate to get out of asset management."

His assessment is not far wrong. Many of the mergers and acquisitions that have taken place this year involved either large banks and insurers divesting to further protect their capital positions, or small companies selling in the interest of survival.

In addition to the BlackRock/BGI deal, three other transactions took place during the first half of 2009 involving asset managers with \$100bn or more in assets under management: Société Générale's merger with Crédit Agricole, Swiss Re's sale of insurance asset manager Conning to Aquiline Capital Partners, and Mitsui Life Insurance's sale of its stake in Sumitomo Mitsui Asset Management to three other banks and insurers.

Ray Soudah, founder of mergers and acquisitions boutique Millenium Associates, predicted large banking and insurance groups would continue to deal away their asset management units as their capital needs and long-term forecasts remain challenging. But he did not expect the number of transactions to increase over the next 12 months overall.

"There is no reason for people to buy each other at higher prices just because the market feels better," he said.

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