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Manager M&A robust in 2022 but size of deals got smaller

By Palash Ghosh
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While market weakness and volatility did not put a big dent in the number of mergers and acquisitions among wealth and asset managers in 2022, the gloomy economic backdrop did lead to smaller-sized transactions compared with prior years.

Through the end of November, asset and wealth management firms announced 355 transactions involving total transacted AUM of about $1.493 trillion, according to a recent report from investment bank Piper Sandler & Co. That compares with 346 transactions in the same period of 2021, but transacted AUM amounted to $3.177 trillion — more than double the 2022 figure.

(For all of 2021, there were a record 398 transactions, with total transacted AUM of $3.35 trillion, according to updated figures from Piper Sandler.)

Aaron Dorr, New York-based managing director and head of asset and wealth management investment banking at Piper Sandler, said that while the overall volume of deals remained about the same, the AUM figure plunged as asset managers were more cautious amid declining markets and opted to focus on "smaller tactical deals" rather than on "large, transformational transactions."

According to data compiled by Pensions & Investments, one of the biggest deals to close in 2022 was Goldman Sachs Group Inc.'s €1.7 billion ($1.82 billion) acquisition of Dutch-based NN Investment Partners, which had about $355 billion in assets under management and $70 billion in assets under advisement when the deal was announced.

In June 2022, Voya Financial Inc. agreed to integrate certain assets of the U.S. business of Allianz Global Investors with its asset management unit, Voya Investment Management, increasing Voya's AUM by $120 billion at the time the deal was announced. In Exchange, AllianzGI received a 24% stake in Voya Investment Management.

Regardless of how strong or weak the economic backdrop is, Mr. Dorr said that large asset managers are committed to growing their AUM and diversifying their investment capabilities, primarily by acquiring faster-growing alternative managers, among other targets.

"This has been a secular trend that I don't see changing," he said.

However, weak and volatile markets of 2022 — coupled with rising inflation, interest rates and ongoing geopolitical uncertainty — weighed on M&A activity among asset and wealth managers, according to Jeffrey B. Stakel, Stamford, Conn.-based principal at Casey Quirk, a business of Deloitte Consulting LLP.

Nevertheless, Mr. Stakel concurred that the long-term ongoing trends in the asset management industry persist and will likely lead to continued consolidation.

"Large traditional money manager are under fee pressure and are still seeking to diversify their investment portfolios and generate new revenue streams," he said. "As such, we continue to see traditional asset managers buying stakes in smaller firms with expertise in alternative strategies, private markets, infrastructure and real estate."

Richard Bruyere, Paris-based managing partner and co-founder of consultancy Indefi, said traditional asset managers need to find new avenues of sustainable growth and the best way to achieve that is to acquire or team up with alternative and private equity firms, where returns are strong and fees remain high.

For example, in November 2022, Franklin Resources Inc. acquired European alternative credit manager BNY Alcentra Group Holdings (which had $35 billion in AUM); and in October, Nuveen said it agreed to acquire a controlling stake in European private debt manager Arcmont Asset Management.

Mr. Bruyere pointed out that the traditional asset management industry — comprised of firms that aren't solely alternatives managers — has matured to a point when it can only expect to see a 2% to 3% rate of organic annual growth.

"The industry is undergoing a crisis in growth and needs to make tactical, strategic deals with high-growth segments of the market, including private markets," he said.

Fee pressure

Indeed, fee pressures at traditional asset managers is of great concern, Mr. Stakel said.

As the traditional asset management industry matures, fees have come under pressure — driven by the transition to passively managed strategies that have largely outperformed active equivalents over the past decade, Mr. Dorr noted.

According to a report from Casey Quirk issued in October, aggregate fees in the asset management industry have slipped to 40 basis points in 2021 from 43 basis points in 2018.

Meanwhile, average annual organic growth in the industry has been declining over the past decade.

In the 2013-2018 period, the average annual organic growth at asset managers — as measured by net new flows as a percentage of beginning of period AUM — was 3.18%. Between 2019-2021, that figure slipped to 2.58%.

Casey Quirk estimated that average annual organic growth will be just 1.29% between 2022 and 2026.

"The tepid rate of new flows into the industry is driving a greater emphasis on consolidation and market share capture as means to drive growth," Casey Quirk said in the report. However, Mr. Dorr pointed out that fees charged by alternative firms have remained high and stable as their asset performance have held up very well, making such firms particularly attractive to big firms mired in stagnant growth.

ESG a lightning rod

Separately, environmental, social, and corporate governance issues have become a lightning rod for controversy in the past year.

Mr. Stakel said the demand for ESG varies by geography as well as distribution channel and is also tied to different regulatory regimes.

"That said, many asset managers are making significant efforts to enhance their ESG offerings and that has certainly contributed to some M&A initiatives," he added. "Firms are trying to define their value proposition in the space and seeking out specialized investment talent is a way to do that. There are also specialist providers that could see value from partnering with a larger organization for access to distribution and more stability."

For example, on Dec. 16, BNP Paribas Asset Management said it acquired a majority stake in International Woodland Co., a Danish natural resources investment specialist, in a bid by BNP to increase its focus on sustainable investment strategies. Also, on Aug. 29, MetLife Investment Management agreed to acquire Affirmative Investment Management, a specialist ESG-impact fixed income investment manager with $1.01 billion in AUM.

Indefi's Mr. Bruyere noted that ESG draws more interest from European asset managers than their North American counterparts.

"This is somewhat strange since ESG was born in the U.S. via ethical funds," he said. "But I think Europe has a firmer grasp of ESG principles because, among other things, they have a consensus on such issues as global warming and climate change."

Europe also has a stronger regulatory framework with respect to ESG matters, he said. Indeed, the European Union has issued new ESG reporting requirements that far exceed such rules in the U.S., where ESG appears to be lagging, he noted.

Looking out at 2023, Mr. Stakel expects M&A/consolidation to continue as the industry needs to deal with falling fees and rising costs — but the pace of such activity will likely depend upon the health of the overall economy and the confidence of managers to make profitable deals.

Even if 2023 is another down year for the markets, Mr. Dorr added, he still foresees a flurry of M&A deals, although acquirers will be more cautious in the opportunities they pursue and how they structure such transactions.