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Strong dollar boosts international expansion

Legg Mason, AMG, Federated Investors are in discussions to make acquisitions

By Jessica Toonkel Marquez

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A growing number of U.S.-based asset managers are renewing efforts to expand internationally through acquisitions, a move that bankers say is well-timed in light of the growing strength of the U.S. dollar.

Global growth had been a priority for most major U.S. firms, but the economic downturn of 2008 and 2009 put those plans on hold.

Now, however, such firms as Legg Mason Inc., Affiliated Managers Group Inc. and Federated Investors Inc. are in discussions to make acquisitions abroad.

"There is certainly more interest" in expansion outside the United States, said Elizabeth Nesvold, managing partner of investment bank Silver Lane Advisors. "Overall, there is a more of a global-economy feel to [mergers-and-acquisitions] discussions."

Legg Mason, for example, is in discussions to make acquisitions or lift-outs in the United Kingdom or other parts of Europe to be able to offer global equity offerings, said Ronald D. Dewhurst, head of the company's international asset management. The firm has international fixed-income offerings through its Western Asset Management Co. Ltd. subsidiary, but it doesn't have a stake in the global equity area.

Down the road, the firm is also considering expanding into Asia, but Europe is a short-term priority, Mr. Dewhurst said. The firm doesn't have a timetable for when it will make an acquisition, he said.

Like Legg Mason, AMG has a history of growing by acquiring smaller asset managers and keeping them separate, but the firm has held off on acquisitions over the past couple of years because there haven't been many buying opportunities, said Jay Horgan, executive vice president of new investments.

But over the past few months, the firm has been on a global buying spree. In February, AMG announced two deals.

On Feb. 1, it signed an agreement to acquire a majority interest in Artemis Investment Management Ltd., a $16 billion company. Then, on Feb. 10, AMG said that it was acquiring the global fund-of-funds business of Pantheon Ventures Ltd. from Russell Investments for $775 million.

AMG is continuing to look for deals as a means of expanding its global investment offerings, Mr. Horgan said.

“We are looking for managers who manage global [products],” he said. “We will look to do the transaction wherever.”

Additionally, AMG is seeking deals that allow its affiliates to gain distribution abroad, and the firm is also expanding organically. AMG has offices in Australia and London, and in the next few months plans to open an office in Hong Kong, Mr. Horgan said.

LOOKING FOR THE RIGHT FIT

Meanwhile, Federated Investors is looking to acquire an asset manager that would help it gain global distribution and add global fixed-income capabilities to its offerings, said Gordon Ceresino, vice chairman and president of Federated International Management Ltd.

“We already have strong international fixed-income and equity offerings,” he said.

“The key for us is the cross-

border capability of the firm, regardless of the location,” Mr. Ceresino said. “We would like to do it as soon as possible, but we need to make sure it's the right fit.”

Due to the strong dollar, U.S. firms have more opportunities to buy, particularly in Europe, than they did a year ago.

“More firms are looking at Europe for the first time in a quarter of a century,” said Benjamin Phillips, director of research and a partner at Casey Quirk & Associates LLC, a consultant to investment management firms. “There are just more opportunities.”

Over the past few years, more large financial institutions in Europe have begun to divest their asset management arms, and the sovereign-debt crisis is expected to accelerate that trend, observers said. Just last month, Italian bank UniCredit Group SPA said that it had hired Bank of America Merrill Lynch to evaluate selling Pioneer Global Asset Management SPA, including its U.S. fund arm, Pioneer Investment Management USA Inc.

The European crisis comes at a good time for U.S. firms that have gotten their organizations back in order post-market-meltdown and are looking to expand again, observers said.

“Because of everything going on, a lot of companies had to focus on other things,” said Robert Lee, an analyst who covers asset management for Keefe Bruyette & Woods Inc. “Also, it's hard to get a deal done when everything is going down, down, down.”

The recession demonstrated how important it is for firms to look outside the United States for growth, said Greggory Warren, an analyst at Morningstar Inc.

LIGHTING A FIRE

“Companies always had the understanding that they had to expand outside the more mature markets, but the events of '08 and '09 lit a fire under them,” he said.

Particularly U.S. firms with high exposure to domestic equity have realized the importance of being able to offer global investment offerings to advisers and investors, Mr. Phillips said.

“A lot of financial advisers are asking more for global allocation products because they want more exposure to non-U.S.-sourced markets,” he said.

Although overall deal activity so far this year is down from a year earlier, the percentage of cross-

border deals has increased, according to Jefferies & Co. Inc. As of May 31, there were 38 mergers and acquisitions, 24% of which were cross-border, compared with 60 deals a year earlier, 15% of which were cross-border.

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