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LSEG to Sell Russell Investments as Package Deal

By Michael Shagrin February 9, 2015

Russell Investments is again on the auction block as the London Stock Exchange Group (LSEG) looks to offload the entire investment management business, rather than selling component units individually.

But merger and acquisition professionals are skeptical that any such buyer would keep all of Russell's business units together, meaning clients will likely remain in the dark for the foreseeable future as to who will be the next long-term owner of the business.

Competitors to Russell's outsourced CIO (OCIO), multi-asset and investment consultant businesses may spy an opportunity to pluck clients if dissatisfaction emerges.

Since the London-based bourse operator announced the purchase, there was near certainty that Russell's consulting division, OCIO unit and multi-asset solutions business would not stay under LSEG ownership for very long. LSEG admittedly targeted Russell for its high-margin index unit.

"We knew this was a possibility. To me the key thing is that it's sold as a unit where the [manager] research is maintained," says executive director of the **Louisiana Sheriffs Pension and Relief Fund**, **Osey "Skip" McGee, Jr.**, a client of Russell's consulting arm. There would be a "cause for concern if the whole business wasn't held together as a unit," he says.

M&A professionals doubt there is even an existing company that could rationally fit all of Russell Investments' business lines under its corporate umbrella.

That could pose a potentially insurmountable problem. All three business units are heavily reliant on the firm's highly-touted manager research team because their research is used as the basis for investment decisions made by all of Russell's component parts. In the event of a breakup, it is unclear which entity would be packaged with the manager research team.

"We may have to evaluate what [a new owner] is proposing because research is a key element," McGee says.

Though LSEG contends in its most recent announcement that it will "focus on maintaining management and employee continuity," M&A experts in the investment management industry say that selling the investment management operations as a single entity unequivocally puts LSEG's immediate interests first.

"We don't know that there is a single buyer of this whole business," says **Jaime Carvallo**, managing director and co-founder of Park Sutton Advisors, an investment banking boutique specializing in asset management. "[But] sellers of these large investment businesses typically prefer to try and sell the businesses as a whole … to secure top dollar."

One such suitor for the company is the **Canadian Imperial Bank of Commerce** (CIBC) which, according to reports, is one of at least three companies that have expressed interest in acquiring Russell. The price for the investment management business being publicly floated is around $1.4 billion. LSEG acquired the entirety of parent firm **Frank Russell Co.**, which included the indexing business, for $2.7 billion in a sale completed in December.

But the pressing question—which has now been answered after a months-long review performed by **Casey Quirk**—was whether those business units would be sold in separate auctions or as one single entity. LSEG has confirmed it will seek a sole buyer for the entire investment business.

“This approach maximizes investment banking profits, minimizes price and absolutely guarantees chaos in the business," says **Donald Putnam**, managing partner at Grail Partners. “Clients have been ill-served so far, and will be ill-served in future by this cynical strategy.”

“Now LSEG is going to sell the rump to a private equity bidder or a conglomerate who will immediately cleave the unlike parts from each other, optimize each, and sell or operate on that basis,” he says. “The London Stock Exchange bought it all—winning as the only bidder willing to do so—and now is selling off the dross and keeping the index business that every other bidder was willing to pay a lot more for if it was sold alone.”