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Russell Asset Mgmt Shifts to Private Equity Firms for $1.15B

By Michael Shagrin October 9, 2015

A version of this article ran yesterday as a breaking news item.

The London Stock Exchange Group (LSEG) has agreed to sell the asset management and advisory arms of Russell Investments to a pair of private equity firms for $1.15 billion.

TA Associates has agreed to acquire the unit as the lead purchaser, supported by **Reverence Capital Partners**, which will own a minority stake in the business. The sale, initially mooted in February, sees LSEG offload the asset management arm after buying its parent company last year for $2.7 billion from Northwestern Mutual, largely for its indexing business. Analysts had long predicted LSEG would sell the asset management division due to the conflicts embedded in simultaneously running an exchange and managing investments traded on that exchange.

LSEG expect Russell's index business to be formally separated from the investment unit during the first quarter of next year.

The asset management unit is primarily comprised of a line of multi-asset solutions products, a consulting arm and a discretionary management business, which are all reliant on a shared manager research operation. It had $266 billion in assets under management, while its consulting group advised on $2.4 trillion in client assets, as of June 30, according to Russell figures.

Neither side of the deal expects any of these individual business units to be sold off, according to a person with knowledge of the transaction. But, investment bankers specializing in asset management say the new owners would be wise to consider further deal-making, namely splitting up the firm's money management and consulting businesses.

"It isn't out of the realm of possibility that future plans include some element of firm rightsizing or acquisitions," says **Elizabeth Nesvold**, managing partner at Silver Lane Advisors, an investment bank and mergers and acquisition advisory firm. “Longer term, management needs to assess whether all businesses should continue to co-exist under the same roof, given the regulatory headaches of cross-selling products to clients under the outsourced CIO (OCIO) vertical.”

“Presently, the sum of the parts appear to be greater than the whole,” she adds.

Indeed, that may be reflected in the sale price’s relatively low multiple of operating profit—the multiple is estimated to be 6.5 times by investment bank Park Sutton Advisors. That amount is well below the typical multiple for the purchase of an asset management firm, according to **Steven Levitt**, managing director and co-founder of Park Sutton.

On the other hand, the proportion of the deal being settled upfront, $1 billion, or 87%, of the $1.15 billion total price tag, is considerably larger than typical asset management acquisitions, says Levitt.

“The whole reason asset management deals have a substantial amount paid in the future is to balance out the risk. Having a good amount of deferred or contingent payment is standard when a buyer wants to have some protection in the case of assets going down,” he says. “But since they’re not buying at as a high multiple as is typical, it makes some sense that they’re closing at 87%.”

The remaining $150 million will be paid out annually in four equal cash transactions starting at the end of 2017. If Russell’s revenue declines before the deal is closed, the total price of the purchase may be reduced to reflect as much.

But there’s a chance the private equity duo will be overseeing a very different company by the time that final payment comes due at the end of 2020—Levitt calls it “not unlikely” that Russell’s consulting and OCIO arm will be involved in some form of M&A activity.

“The new owners will want to do whatever they can to unlock value,” Levitt says. “If they combine those businesses with the right firm, it could be sold to someone at a much higher value or go public at a much higher value.”

As majority owner of Russell Investments, TA Associates will receive two seats on its board of directors, while Reverence Capital Partners will be entitled to one. Both firms have experience investing in asset management portfolio companies.

“We believe that the breadth of Russell Investments’ investment and implementation operations, as well as its orientation to multi-asset and solutions investing will continue to be a differentiator and driver of growth in the marketplace going forward,” **Todd Crockett**, a managing director at TA Associates, said in a statement.

Since LSEG put Russell Investments on the block in February, the business was targeted as a strategic acquisition by financial services firms including Canadian Imperial Bank of Commerce, Towers Watson and most recently, the **Beijing-based CITIC Group**, which has since become embroiled in an insider trading scandal, according to reports.

The sale is expected to close in the first half of 2016.

“Russell Investments will maintain its operational independence, and TA Associates and Reverence Capital will provide us with strong financial backing, new strategic insights, and a commitment to help us continue to deliver innovative investment solutions to our global client base,” **Len Brennan**, president and CEO of Russell Investments, who will continue to lead the firm and remain on its board, said in a statement.