

## Inst'l Fixed Income Mgr Sold to UK Firm, Maybe at Peak

By Laura Suter  
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In a bid to boost its U.S. client base, U.K. money manager Schroders has bought STW Fixed Income Management. It brings Schroders' U.S. fixed income assets under management to \$35 billion. However, with fixed income hitting record-high valuations, the purchase could yet prove to be expensive.

Schroders has been trying since 2009 to boost its U.S. market presence. Although it typically focuses on growing without taking over other firms or assets, it has now decided to buy the specialty fixed income manager, which mainly serves U.S. corporate and public pension plans.

Some have called the move a change in strategy. "Schroders has had New York offices for a long time, but this is probably an indicator that they are ready to step up their game and perhaps of a willingness to try a new approach," says Janie Kass, managing director at Margolis Advisory Group.

However, far from signaling a cultural shift, Schroders says that it simply found a good team in the right market. "We are basically hiring five really good investors and buying the business along with them," says Karl Dasher, head of fixed income at Schroders.

Dasher adds that while Schroders' U.S. strategies have seen good growth, a large portion of the assets have come from non-U.S. investors, with this move allowing them to tap into a U.S. client base. The company is now eyeing a goal of \$100 billion in fixed income assets in the U.S. alone.

However, many will question the timing of the deal, particularly as fixed income has hit historically high valuations over the past two years. Steven Levitt, managing director and co-founder of consultant and investment bank Park Sutton Advisors, says fixed income will remain a popular part of investors' portfolios, but thinks the sellers may have capitalized on the strength of the market. "It wouldn't surprise me if the sellers had timed this...it's a good moment for valuation for them and valuations could be a lot lower in future."

While fixed income has seen booming interest from investors of late, this has not been reflected in M&A activity, according to Levitt. He says buyers have simply sought firms with scale, good track records, and best-in-class qualities across a range of asset classes. "Of all the asset classes there is less demand for core fixed income. But STW has some scale and a range of fixed income strategies."

Dasher says it was also crucial to ensure that STW was a good match for Schroders. Sellers have been trying to complete deals by the end of 2012 to avoid higher taxes that are due to kick in next year, but this deal will not be processed in time, with Dasher saying it was more important the fit was right for each side. When STW is

integrated into Schroders, Dasher says that it will operate under the same umbrella, be able to use the same resources and will relocate its staff to Schroders offices.

Kass says this type of mindset is crucial to the success of takeovers that go across country borders. "It is important that the acquirer be patient with the company and not try to come in and impose the way they operate, as it may not work in the U.S.," she says, "The key thing is to avoid the mentality of 'I'm the buyer and I decide what happens' but instead to respect the judgment and market knowledge of the acquiree."

While some of STW's strategies differ from what Schroders already offers, there are overlaps. At this stage, the company does not appear to be planning to merge the offerings. "STW clients will continue to receive the style of investment they have grown accustomed to," Dasher says. "We are not going to be forcing change on them."

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