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NY Manager Dives into Alts Market with Acquisition

By Morgan M. Davis April 11, 2014

Manning & Napier will acquire alternatives manager **2100 Xenon Group** during the second quarter this year. Through the acquisition, Manning, based in Fairport, New York, will gain Xenon's three products, investment team and approximately $200 million in assets under management. Manning had $52.2 billion in assets under management at the end of March.

Asset managers across the industry are building their alternatives capabilities through acquisitions in order to meet institutional demand for the products. Other examples of this trend include Franklin Templeton taking a majority stake in **K2** last year and Legg Mason and its affiliate company Permal's acquisition of **Fauchier Partners** last year.

An October report from Cerulli Associates found that larger managers are more likely to hire teams or acquire specialty shops than build new alternatives products in house. Of the surveyed asset managers, 31% said they would lift a team out of another company, and another 19% said they would acquire a specialty shop in order to build their alternatives business.

The Xenon strategies, which include a global managed futures strategy, long/short global fixed income futures product and a futures alpha product, will continue to be branded as Xenon, but will now operate under the Manning umbrella. The Xenon products will utilize Manning's platform, back office structure and distribution capabilities, says **Jim Mikolaichik**, CFO at Manning & Napier.

The Xenon team will stay in its Chicago office, managing the strategies without any changes, says Mikolaichik. **Jay Feuerstein**, founder, CEO and CIO of Xenon, will be named to Manning's senior research group as managing director of alternative strategies. **Jeff Bolduc**, director of research at Xenon, will be a portfolio manager within Manning's alternative strategies group, according to a press release.

While the Xenon team will be focused on their established products following the acquisition, Manning will look to build out more Xenon alternative products in the future. Manning will also consider other acquisitions in the future to fill product gaps, like opportunistic credit or yield driven investments, Mikolaichik says. By acquiring Xenon, Manning & Napier can hit the market quickly with products with existing track records, outside of products the firm is working to develop in house, he says.

The acquisition activity makes sense for traditional firms like Manning looking to diversify their product offerings and client base, particularly as institutions clamor for alternatives, says **Steve Levitt**, managing director of Park Sutton Advisors, an M&A specialist. “You really do see this convergence of the long only and alternatives managers,” says Levitt.

Manning & Napier went public in 2011, vowing to grow its products and assets. Using the Xenon acquisition to break into the alternatives space is a great move for the “respected” firm, says Levitt, adding that he would expect to see more acquisitions from the firm in the near future.

“Coming out of the crisis, a lot of the traditional firms were hit, and a lot of people were looking to diversify their business,” says **Sanjay Mansukhani**, senior manager research consultant at Towers Watson. Alternative investment products can complement traditional ones, he says. In the same way, traditional firms can diversify their client base through an acquisition. Smart managers ask, “Am I getting a different type of [client] along with the asset management firm I’m buying,” says Mansukhani.

Alternative investments also require a different skill set and approach than traditional investments, says Levitt. “When you look to grow a product organically it can be costly,” he says. “They would have to bring this [expertise] in from the outside,” says Levitt. The experience of a team like Feuerstein and Bolduc, in addition to investing in developing products with a minimum three year track record can rack up quite a bill for a firm, and at no guarantee for success, he says. But, acquiring a small shop like Xenon “is probably not that costly,” says Levitt. Terms of the deal were not disclosed.

“It takes a lot” to build a team and product track record in-house, agrees Mansukhani. But traditional shops tend to be larger, with back office capabilities they can provide for smaller alternatives shops that find distribution and other non-investment functions costly.

For Xenon, Manning will provide the pricey backroom operations and distribution capabilities. Xenon’s established products, experience and client assets will help boost Manning’s alternatives division to profit and success more quickly, says Levitt. “The value here is in what the two parties can build together.”