Old Mutual on Inst'l Acquisition Trail, Says CEO

By Laura Suter March 25, 2013

Old Mutual Asset Management (OMAM) says it is on the acquisition trail as part of its plans to grow in the institutional market, both in the U.S. and globally. The company is "actively looking" for prospects, particularly eyeing alternatives and growth equity.

In an interview with *FundFire*, **Peter Bain**, CEO, said OMAM's period of restructuring and adjustment is now over, and that the company, which has $209 billion in assets under management, is ready to grow again. This comes after the company improved its financial results, stemmed outflows, sold five of its boutique affiliates, and shed its U.S. retail business, although rumors persist that parent firm **Old Mutual** will look to list a chunk of OMAM's shares.

"We're now in a position to make acquisitions, which is a central part of the growth strategy of the multi-boutique model," says Bain. "We now have the capital and the runway to do it." Old Mutual confirmed it was seeking to grow OMAM in its recent annual report, placing it as one of three top objectives for Old Mutual globally.

Acquisitions are just part of this four-stage growth plan, according to Bain, alongside organic growth generally, collaborative organic growth in its affiliates and a boosting of sub-advised business. "Work over the past couple of years has been thoughtful and well executed, and we are now in a place to grow," he says.

OMAM is well-represented in real assets and value equity, but has some gaps it is looking to fill, Bain explains. "There is a whole world of traditional alternative that we think is important," he adds. Within this he is keen on distressed debt and credit managers, who are filling the gap in the market that banks have been leaving following the financial crisis.

Growth-orientated equity investment is another sector into which OMAM can expand. "At some point we need to deal with growth equity. We are very strong on value, but growth is a huge asset class, and it is strategic and permanent," he adds.

Growth equity might be a particularly good fit for an active manager who can exploit inefficiencies in the asset class, according to industry observers. "I think such there is such an opportunity in the mid and small cap growth equity space, if you can find the right team to match up," says **Kevin McKeon**, director at recruitment firm Sheffield Haworth. "Small to mid-cap is a less efficient asset class, so there are likely to be flows both in the US and especially into the non-US and global."

For active managers like OMAM, alternatives also present a number of opportunities. Unlike many who have declared the demise of fund of hedge funds, Bain sees opportunities here, in firms that did not shut their gates amid post-crisis outflows and built strong relationships in the institutional and separately managed account sectors. “Those businesses will be fine. If I found one like that – and I know two or three – that would be doable,” he says.

Increasing hedge fund allocations make sense when looking at OMAM’s existing affiliates, says **Steve Levitt**, managing director and co-founder of consultant and investment bank Park Sutton Advisors. “They are underexposed to hedge funds, although **Acadian** has some long-short strategies, so it makes sense that they would want to boost this area given the continuing institutional flows into hedge funds.”

But one area in which OMAM will not be investing is traditional fixed income, with Bain predicting “there is a reckoning coming there”. Yields on traditional fixed income have sunk to record lows in recent years, with institutional investors increasingly saying the asset class does not represent good value for money.

Alongside this acquisition hunt OMAM is expanding its sub-advised business elsewhere, targeting the UK and Europe, the Nordic region, the Middle East, Benelux, and Asia and Hong Kong.Following OMAM’s recent restructuring, some industry minds may be forgiven for associating it less strongly with growth. However, with five of its affiliates now gone, OMAM’s remaining businesses appear to be growing much faster. When looking at continuing operations only, not the affiliates it sold off, OMAM saw net client cash inflows of $1.4 billion in 2012, compared to net outflows of $4.7 billion last year.

Speculation continues that OMAM’s restructuring and acquisition plans are all directed at the ultimate goal of floating the company. While tight-lipped on immediate plans, Bain says any initial public offering (IPO) would not need to be the big event it is built up to be: “An IPO is not a strategy, it is not a business plan – it is a capital markets event.”

The clock may already be ticking – conditions appear to be much riper for IPOs than they were last year. “I think the good performance of the Artisan Partners IPO should help asset manager IPOs,” says **Kathy Smith,** principal at institutional research firm and IPO specialist asset manager **Renaissance Capital**. **Artisan Partners Asset Management** saw a 29% increase in its share price on its first day of trading following a $332 million IPO in March.

Levitt adds that the success suggests “good market receptivity for strong asset management businesses”. It offers positive news for the sector following a disappointing IPO from **Manning & Napier** last year and the withdrawal of **Silvercrest Asset Management**’s IPO at the end of 2012.

Bain sees many benefits for the asset management business in an IPO, including an independent source of capital and establishing OMAM’s identity as a pure asset management company, rather than a subsidiary of an insurance company. But despite more favorable markets in the past few months, he hints that the time may not be right until the planned growth and acquisitions are complete: “You’d want it be successful, the conditions to be right and the business operating on all cylinders.”