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Casey Quirk Expects M&A Activity to Create "Largest Competitive Re-Alignment in Asset Management History" By 2020

NEW YORK and DARIEN, Conn., May 24, 2017 — According to a new whitepaper from asset management strategy consultancy Casey Quirk, a practice of Deloitte Consulting LLP, the industry is likely to experience "the largest competitive re-alignment in asset management history" through merger and acquisition activity from 2017 to 2020.

According to its new Investment Management M&A Outlook, "Skill Through Scale? The Role of M&A in a Consolidating Industry," Casey Quirk expects strong merger and acquisition activity in 2017 with a continued historic pace of deals through 2020.

Among the factors driving this brisk activity in 2017 and beyond are an aging population, affecting industry asset levels and flows, as well as a broad shift to passive management that has created pressure on industry fees and placed greater value on firms with valuable distribution platforms and those investing in technology. Forty-four deals took place in the first quarter of 2017, and Casey Quirk expects 2017's volume to likely outpace the last two years.

"Investment management has become a fiercely competitive industry, increasingly shaped by the same winner-take-all dynamics influencing other maturing financial services sectors," said Ben Phillips, a principal and investment management lead strategist with Casey Quirk and one of the authors. "Amid this challenged marketplace, the gap is widening between leading and lagging asset and wealth management firms. Unlike deals of the past, consolidation pressures, with a focus on scale, will likely drive the next round of M&A activity to position firms for growth."

According to Casey Quirk, most of the investment management merger and acquisition deals in 2017 and in the next few years should fall in the following categories:

- Transformative scale acquisitions driven by the quest for revenue and cost synergies. These deals should be larger than in the past several years and should include more global mergers of equals.

- Capability-based transactions, mostly representing additions of innovative investment products and technology needs.

- Shifting value chain deals, with many asset managers acquiring firms that help them extend their capabilities in such areas as distribution, wealth management or advice.

- Pure consolidation deals structured to spread costs over a larger client asset base; several may take place in the US mutual fund marketplace.

“Economic pressure, distributor consolidation, the need for new capabilities, and a shifting value chain are the catalysts that are fueling M&A activity,” said Masaki Noda, Deloitte Risk and Financial Advisory managing director, Deloitte & Touche LLP, and co-author of the paper. “Asset managers are feeling pressure from many corners and are looking for ways to secure a competitive advantage. Strategic deals may be the answer.”

In 2016, 133 mergers and acquisitions occurred in the asset management and wealth management industries, down slightly from 145 in 2015, but with a higher average deal value, up from $240.9 million in 2015 to $536.4 million last year. In investment management, about half of the deals rose from the need to add capabilities such as innovative investment strategies or access to new market segments. In wealth management, the vast majority of transactions—64 out of 78—resulted from consolidation, as various smaller wealth managers sought to improve profitability through economies of scale. Merger and acquisition deal volume by category is from SNL Financial, Pionline.com, Casey Quirk analysis and Deloitte analysis.

About Casey Quirk
Casey Quirk, a practice of Deloitte Consulting LLP, is a leading management consultancy that focuses solely on advising asset management firms. Casey Quirk was established in 2002 and acquired by Deloitte in June 2016. The firm has advised a majority of the 50 largest asset management organizations worldwide, including eight of the top 10. Casey Quirk provides senior leadership teams with broad business strategy reviews, investment positioning and strategy consulting, market opportunity evaluations, organizational design, ownership and incentive structuring, and transaction due diligence. For more information, please visit www.caseyquirk.com.

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