



**Deloitte M&A Views podcast:  
Investing in growth: M&A strategies for investment management**

**Transcript**

**Greg Jarrett:** Welcome to the Deloitte M&A Views, a Deloitte podcast series exploring the latest trends in topics in mergers and acquisitions (M&A). I'm Greg Jarrett, and today we discuss what's been happening with M&A transactions in the investment management sector and how firms are strategically positioning themselves for competitive advantage. We're joined today by two leaders from Deloitte's investment management M&A team: Masaki Noda, managing director with Deloitte & Touche LLP and Jeff Stakel of the Casey Quirk practice of Deloitte Consulting LLP. Gentlemen, thanks for taking the time to be with us today, and Masaki, let's start with you. What's the current landscape for M&A activity in the investment management sector?

**Masaki Noda:** Thank you, Greg. Global investment management M&A deals and deal sizes are rising. The industry is in its mature stage of the life cycle where firms are experiencing slow organic growth and increased competition. What we're seeing is that these firms are having challenging revenue growth, and increasing cost bases, driven by technology updates and compliance needs. This has in turn applied pressure on their operating margins.

Furthermore, these firms are operating in a difficult environment. Over the past few years, passive investment vehicles have been registering record inflows. And although the market volatility during the first quarter of 2018 has slowed things down, overall passive net flows have still been stronger than their active counterparts. In such scenarios, the few firms that are growing successfully have managed to offer low-fee products, or provide various product lineups.

For growth in 2018, investment management firms should consider bolstering their inorganic growth strategies, including of course their M&A strategy, to prepare for potentially more challenging times ahead. Inorganic growth could prove to be a key strategy for investment managers, as they provide scale, which unlocks other benefits relatively quickly.

**Greg Jarrett:** Jeff, based on what Masaki is saying, growth should be a key focus area for investment managers over this coming year. Can you talk a little more about what is driving this need for growth?

**Jeff Stakel:** Absolutely, thank you, Greg. I would agree and echo everything that Masaki said. I would say that we do see growth as a big driver of activity in the market. And I think a lot of it is tied to managers' aspiration or need to build scale in their business. And you see that for a few reasons. When you look at the overall industry, it is one that we see as concentrating over time, so the amount of supply in the industry is relatively large and the demand overall is becoming increasingly smaller year over year. And so, there's this concentration element that's happening. Leading firms have continued to separate from the pack. What I mean by that is flow is more and more net new flow is accruing to the largest providers in the market. The industry in and of itself is just becoming more global, and so, I think that a lot of managers see it as a big-scale benefit that's linked to getting bigger overall.

And they see this because it provides kind of a broader access of professionals and a broader distribution reached to start to penetrate markets globally in different channels that, perhaps historically, the firm did not play in. In a way, it provides a more—certainly a more—diverse talent pool, which I think going forward will become increasingly important. It widens the products set for a lot managers. And it clearly leads to or it can lead to some key cost efficiencies.

I think the other big aspect is interestingly when you think about overall scale, you think about absolute capital to invest in certain initiatives. And with a focus on technology, on branding, promotion, marketing, the absolute level of spend in those categories is really important. And so, being big allows you to start to invest in those areas to make it a differentiated value proposition within the organization.

**Greg Jarrett:** Thank you, Jeff. Now Masaki, how does M&A support the investment managers in their need for growth? And are we talking about specific types of growth?

**Masaki Noda:** Sure, Greg. In addition to the cost efficiencies that scales provide, that Jeff mentioned, M&A provides the ability to acquire new skill sets and capabilities quickly. We've seen a surge in deals over the past 18 months or so, relating to managers diversifying or strengthening their product lines. So this is where we've seen deals and acquisitions in specific areas, such as ETF (exchange-traded fund), and various alternative products, such as credit and real estate, and even some in energy and infrastructure.

In addition to this, we've been seeing increasing cross-border transactions. Jeff noted the growth in global transactions, where we've seen transactions to and from Canada, Australia, and various parts of Europe and Asia. We've also seen investment management firms making acquisitions in the fintech area and expanding capabilities in technology as well. And many investment managers have already realized the importance of inorganic growth. With over 200 deals during 2017, this has been 50 percent over the transaction numbers that we've seen in 2012, which was only five, five and a half, years ago. In addition to that, average transaction size has also increased, where in 2017, we've been witnessing a number of big-ticket transactions. As you can see, the strategic importance of making deals is pretty clear.

**Greg Jarrett:** Jeff, as we wrap up our discussion here, can you highlight what investment managers should take away as they consider M&A as a growth strategy?

**Jeff Stakel:** Yeah, absolutely. I think that there are a few things investment managers should take away as they consider M&A as part of their growth strategy. I'd say overall, while we did see activity in 2017—and a lot of activity—it probably wasn't in line with what a lot of people in and around the market anticipated.

There was certainly a lot of headlines around consolidation happening at a faster pace than what we saw.

And I think a lot of that may have been related to just strong growth equity markets. So as we see those markets moderate, we see volatility start to re-emerge a little bit already in 2018, we may see activity pick up overall. And I think as managers are thinking about onboarding, or thinking about new M&A activities, they'll really do it for two reasons. And the first is all about the ability to reinvest in their business and find areas that are true growth engines going forward. And so, M&A allows you to either grow at a faster rate than you otherwise would have, which can translate to more capital to reinvest, or you can take some cost out of the system to free up capital and invest in growth there as well.

The second is it goes back to the idea of scale and starting to derive competitive advantages in parts of the organization; and quite honestly, parts of the industry where managers just haven't had to do it historically that we think will be important going forward. The whole idea of differentiating on the client engagement model, differentiating through technology, differentiating through analytics, to be able to be successful on those fronts takes real capital, and it takes real investment. And I do believe that there are a lot of managers out there that think M&A is a viable path to be able to set those priorities in motion.

**Greg Jarrett:**

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