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Why ‘big enough’ might become new goal for asset manager M&A activity

Janus Henderson global CMO David Master argues that being a mega-firm may not be necessary, or desirable

Tom Wilson November 24, 2020, 5:40 pm

Asset managers embarking on M&A activity may being to aim for the minimum scale required for survival, rather than achieving mega-firm status, according to a panel discussion hosted by research and operational consultancy **Acuity Knowledge Partners.**

Speaking in London on Tuesday, **David Master**, global CMO at **Janus Henderson Investors** and **Mike Tumilty**, global COO for **Standard Life Aberdeen**, two firms that have undergone substantial merger activity in recent years, argued that chart-topping deals present a host of risks that scale with the size of the deal, including alienating clients and personnel. The pair suggested that the future objectives of market consolidation could be to become big enough, rather than to out-size rivals.

In a wide ranging discussion, alongside **Bill Street**, CIO of **Quintet Private Bank**, the group discussed operational, marketing and personnel considerations of a post-covid world, as well as offshoring trends.

Read on for some of the key takeaways.

Challenges of consolidation

Though Master was hesitant to predict future M&A trends, he added that it was “easy” to argue it will continue, given the potential benefits larger distribution networks, efficiency savings and the ability to plug product gaps.

“But the prospective benefits of consolidation are not automatic,” he warned. “There are questions [about whether the gains] always get realized, especially at scale. The challenges of mergers shouldn’t be understated. Integrating people and technology can be tough and disruptive. Rationalizing product lineups can alienate clients, [and there’s a risk of] culture clash.”

These challenges can all lead to client frustration, and he argued that the larger the deal, the larger these risks become.

“Perhaps the real question is ‘is there a minimum entry point for survival, or to prosper,’” he concluded. “Consolidation will continue, but I expect … being a mega firm may not be necessary, or even desirable.”

Street added that in terms of pure scale plays, the greater benefits are likely to be felt by passive providers, anticipating further polarization of the market into scale providers and boutiques.

Data architecture is the foundation for effective M&A

Effective data architecture is the foundation for any successful integration, Tumilty argued, be it in terms of M&A activity, or introducing new capabilities such as ESG evaluation.

“To do it effectively, you need a clear view of the data architecture. For cost, for decisions, for bringing together corporate entities if you go through M&A. Without a clear data strategy and architecture, its like running through treacle,” he said.

He added that he expected consolidation to accelerate in the wake of the pandemic, and said that asset managers need to be laser-focused on the gains they are looking to unlock from M&A activity before entering into it.

“There’s lots of fallout involved with M&A,” he said. “It can bring scale, geographic benefits, but it’s a huge undertaking. You should go in with eyes wide open.”

Offshoring: Build or buy?

The panelists agreed that offshoring business functions would likely continue, driven by efficiency concerns.

Tumilty said that his preference was to outsource commoditized non-core activities as much as possible, such as middle-office support and software development, but the more companies do this, the more international operations personnel will need to understand different parts of the business.

“My objective is to have a small as team as possible,” he said. “But those we have need to work with portfolio managers, understand what they do and what they’re trying to achieve. They need to work with distribution to understand clients and their needs, and then [deliver that with] third parties.”

He added that while he is inclined to outsource non-core activities, he also aims to minimize the number of suppliers he works with, to minimize the risk of service shortfalls.

“Fundamentally, the role of COO, over the past decade if not more, has gone from organizer of lots of people to stitching together a complex web of supplier arrangements, all designed and destined to improve what we do and focus on core and commercial activities, making sure its more optimal and less capital intensive,” he concluded. “But ultimately, as I say to the CEO, you want world class tech, but not at world class prices.”

Post-Covid operational shifts

The panel also explored some of the longer-term changes to working set ups brought about by remote working during the pandemic.

Master was convinced virtual meetings will remain widely in use post-lockdown, as they allow portfolio managers to spend more time with clients, and they cut down the time sales teams lose to travel, through he recognized the importance of face to face visits as part of the mix.

Virtual events, in particular, created potential to significantly reduce marketing spend for some companies, said.

“Internally managed events, sponsored events and conferences all consume many millions of dollars for most firms,” he said. “I think if we’re honest some of these activities aren’t worth the money. It’s awkward to admit, but we should. If you add the travel, the cost of virtual conferences and webinars aren’t meaningless, but they’re certainly much lower. And the costs tend to be fixed, rather than variable.”

He was less certain about the implications for companies’ real estate footprints, and to what degree working from home could become permanent.

Lost opportunities from the remote environment, he argued, included fostering company culture and training, particularly with the onboarding of new staff, but also informal strategic conversations and "spontaneous creative thinking," he said.

"It doesn't seem obvious to me that a substantial cost reduction in real estate is a likely outcome," he said.

Street said that strategic reviews of real estate portfolios wouldn't likely threaten companies' presences in major markets, such as New York, London or Paris, but companies may rethink which satellite offices they have, as well as rationalizing individual office space to run overcapacity as the norm, on the assumption that staff won't be in the office full time.

He added that the operational challenges and concerns have broadly been addressed, and working from home generally helped companies increase diversity, support staff's mental health and improve their work / life balance. However, he noted working remotely could fray working relationships, over the long term.

"In life, as humans, we have challenges, some constructive, some less so. Generally, through empathy we can resolve conflicts. That's harder to do virtually. Sometimes you need to get in a room and feel emotions. That's tough to quantify."

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