IGNITES EUROPE

More M&A heat, but no fire yet

By Ed Moisson   26 May 2020

Discussions about potential mergers and acquisitions among asset managers are “hotting up” through the coronavirus-related crisis, with expectations rising that more deals will be completed as a result.

European mutual funds have suffered record outflows this year as the crisis spread across the continent, resulting in an estimated hit to firms’ annual revenues of €11.5bn.

Depressed assets under management have compounded the cost pressures active fund houses were already dealing with before the crisis.

Many listed asset managers’ share prices have not recovered from the falls they suffered two months ago, despite improving over the succeeding weeks.

Dean Frankle, UK asset management lead at Boston Consulting Group, says: “Conversations [about M&A] are definitely hotting up.”

Mr Frankle says he believes there will be “more M&A”, adding that for firms “going shopping, things are cheaper”.

Firms with “deep pockets” are thinking this could be a good time to find firms that offer revenue-generating synergies, he says.

These synergies can come either from investment capabilities, such as private assets, or from distribution, such as having a sales presence in a particular market.

Asset managers are “not rushing around” to find acquisitions, but looking for targets that offer “clear logic” at a time when organic growth is “tough” for most firms.

He says: “There is excess capacity in the industry and there are scale benefits in pretty much all underlying drivers of a business. This is not always for creating a trillion-dollar business, but scale where it matters, [such as] in a core investment competency.”

Jonathan Doolan, head of Europe, the Middle East and Africa at consultancy Casey Quirk, says that early in the crisis he had “lots of conversations” with private equity and asset managers about potential M&A deals.

However, the increased interest in acquiring asset managers is not yet translating into the prospects of deals completing, experts say.

“The fruit is just not ripe enough yet. It’s not yet falling from the tree,” Mr Doolan says.

Larger firms with depressed asset values are aiming to “just hold on” through the crisis and wait for asset values to rise, unless they have a “really serious debt issue”, he says.

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Kevin Pakenham, co-founder of Pakenham Partners, an independent M&A consultancy, agrees, saying: “The fall in markets and pressure on revenues increase enthusiasm for consolidating acquisitions, either as an offensive or defensive strategy. This turns up the volume of M&A discussions.”

“But increased market uncertainty makes fair value harder to establish and makes transactions harder to complete,” he says.

As a result, Mr Pakenham says: “If markets rally, we shall see more M&A. If not, not.”

Ray Soudah, chairman and founding partner of MilleniumAssociates, an M&A advisory firm, says: “Most such mergers occur when share prices are high and boards of directors see only sunlight all around, rather than the current cloudy skies.”

If acquisitions do take place, then “pickings will be slim”, and limited to small and mid-sized acquisitions, according to Mr Doolan.

He says captive asset managers – those owned by banks or insurers – are among those more likely to look for acquisitions.

Captive fund houses that fail to demonstrate the benefits of active fund management through the crisis may respond to the pressure of Mifid II's evolving suitability requirements by looking for acquisitions.

"Captive managers may open up their purse strings to buy high-quality investment capabilities," Mr Doolan says.

Meanwhile, Mr Soudah says it is a "false view" for large asset managers to think that merging with peers or smaller firms will "solve their challenges".

"Theoretical cost-cutting synergies" often lead to "significant client defections" given the disruptions "frequently experienced" from mergers or takeovers, he says.

"Serious players will no doubt be considering their options but the majority are best advised to stay calm, and focus on existing client retention and technology-driven efficiencies," he adds.

Additional reporting by Dawn Cowie.

Invesco to offer six months' fully paid parental leave

By Amie Keeley 26 May 2020

Invesco has become the latest asset manager to offer both female and male employees six months' fully-paid parental leave.

Staff in Europe, the Middle East and Africa can take the leave at any point within the first 12 months of becoming a parent through birth, adoption or surrogacy.

The new scheme will be backdated to staff who have become parents since January 1 2020.

The listed asset manager will also offer full pay during parents' first six weeks back at work in return for 80 per cent of their normal working hours.

Employees will also receive access to a parental coaching service through a partnership with specialist consultancy, Talking Talent.

Doug Sharp, chief executive officer for Europe, the Middle East and Africa at Invesco, says the new scheme will help "attract and keep talent".

"Developing a gender-neutral approach to pay and the parenting experience is part of our genuine commitment to encourage equality in the workplace," he says.

"I strongly believe that a firm's culture is one of the most important considerations for attracting and keeping talent."

"Encouraging and supporting our staff and the teams they work with to feel that Invesco is a place where they can develop their careers and meet their family objectives as well, has been one of the priorities within our diversity and inclusion focus across Emea," he adds.

Despite this latest move, Invesco was one of at least seven asset firms to not publish data on their gender pay gaps in April after the UK government relaxed reporting rules amid the coronavirus crisis.

However the firm has since published its data for 2019 which shows a median gender pay gap of 33 per cent - the same as for 2018.

Invesco's decision on parental pay follows similar policies rolled out by Baillie Gifford, Janus Henderson and Standard Life Aberdeen in recent years.

Baillie Gifford and Jupiter started offering six months of fully paid parental leave to any employee, regardless of gender, in 2019 and 2018 respectively.

Meanwhile the UK's largest listed asset manager, Standard Life Aberdeen, began offering staff nine months' fully paid parental leave, regardless of gender or length of service, in 2019.

Diversity campaigners have welcomed Invesco's decision but say it is vital that fathers are encouraged by firms to take up the policy to improve gender equality in the sector.

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Gwen Rhys, founder and CEO of Women in the City, says: "Having shared parental leave across a 12-month period gives out a strong family-friendly message. But, as with all policies, what's important is the corporate culture that supports them.

"For example, will men be encouraged to take up the full allowance? And, if they do, will they experience a 'dad trap' [a reduction in career prospects/progression] in the way women experience the 'mum trap', or will this policy truly equalise the prospects of men and women?"

She says Invesco's decision to backdate the leave is "impressive" in the current circumstances and adds that allowing the leave to be taken across 12 months would give parents "greater flexibility".

Helena Morrissey, chair of The Diversity Project, also praises Invesco's decision and calls on other asset firms to follow suit.

"Aviva blazed a trail for gender-equal parental pay back in November 2017 but sadly its groundbreaking policy wasn't followed by others [...] until now," she says.

"We know that fathers haven't tended to take up shared parental leave largely because it would result in a financial hit; equalising parental pay is the only way to really equalise both parenting and careers."

She says Aviva reported a 23 per cent spike in the number of fathers taking up shared parental leave in the first year its new policy was rolled out.

Ms Morrissey adds: "We need to focus on families not just on women if we are going to make more progress towards a better gender-balanced investment industry. If widely adopted, this policy would really help."

Ms Rhys says Invesco's policy and others like it are likely to attract more women into the sector, which had one of the highest gender pay gaps, at 30 per cent, in the financial services industry when figures were reported in March 2019.

Of the 27 firms that published gender pay data this year, 20 saw a decrease in their median pay gap compared with last year, while seven firms reported an increase.

Fund groups call for Mifid II reforms on investor protection

By Sandra Heistruvers 26 May 2020

The European and US fund industries have called for improvements to investor protection rules under Mifid II to provide flexibility to professional investors and enhance investment choice.

The European Commission published a public consultation for its Mifid and Mifir reviews in mid-February that referred to potential tweaks to the regulations, which govern investor protection and capital market infrastructure in the EU.

In its response to the consultation, the European Fund and Asset Management Association has outlined its recommendations on these regulations, which came into force at the beginning of 2018.

Tanguy van de Werve, Efama's director-general, says the European fund industry body supports the main objectives of the Mifid II and Mifir framework, "which, for the most part, is working as intended".

He notes, however, that Efama is calling for "targeted improvements such as to provide more flexibility to professional investors, to increase market transparency by mandating the creation of a consolidated tape for all financial instruments, and to address data quality and data cost issues through a stricter enforcement of existing rules".

On the issue of investor protection, the European fund industry is demanding more flexibility for professional investors and eligible counterparties.

According to Efama, professional investors should either be allowed to opt out of many cost disclosure and investor protection requirements, or should be out of scope and allowed to opt in.

While Efama agrees with the notion of semi-professional investors, a new client category that has been proposed by Brussels, the fund body "does not believe that the creation of a new client category is the right way forward".

Efama also calls for retail alternative investment funds to be automatically considered non-complex financial instruments that can be sold execution-only.

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The association says it opposes an “outright ban on inducements as it would have substantial and far-reaching consequences in terms of overall access to investment advice for all European citizens”.

The fund industry body also argues that issuer-sponsored research should qualify as an “acceptable minor non-monetary benefit” and should be kept out of the inducement regime.

Meanwhile, in its response to the consultation, the US Investment Company Institute says that while Mifid II and Mifir have resulted in innovation and improved competition, “additional changes are necessary to enhance meaningfully pre-trade and post-trade transparency, and ensure that fund managers can maximise execution quality for their end investors”.

ICI Global believes that improvements to Mifid II’s investor protection rules are needed to “improve the process for fund investment, enhance investor choice and enable fund investors to benefit from cost efficiencies derived from the management of pooled fund assets”.

Patrice Berge-Vincent, managing director at ICI Global, is calling on European policymakers to “take an ambitious approach in improving Mifid to further develop European capital markets and foster a lasting economic recovery from the pandemic”.

“Changes should include improvements to trading and execution, such as a consolidated tape, and an improved investor protection framework that provides better access to suitable and appropriate investment products.”

According to Mr Berge-Vincent, “EU policymakers should seize the moment by bringing investor communications into the modern, digital age”.

“This simple change would align with the global trend towards digital financial communication and would better reflect the agenda of today’s modern, sustainable, digital Europe,” he adds.

UK hedge funds face investor questions over staff virus infections

26 May 2020

London-based hedge fund firms are starting to face questions from investors regarding the medical status of their portfolio managers amid the coronavirus outbreak, *Reuters* reports.

The news service says it may be understandable that investors seek information on the health of key managers who run large amounts of money during a pandemic, although such details are usually seen as a private matter by many.

Three investors tell *Reuters* that they would like to be informed by hedge funds about any Covid-19 infections among employees.

One investor says the important issue is what hedge fund managers plan to do “on the basis of when, not if, they get the virus”, according to *Reuters*.

Some hedge fund firms are adopting a need-to-know approach to health disclosures as many of those infected by the virus have only mild symptoms.

Reuters says firms will only inform investors if any of their senior managers became seriously ill as a result of a Covid-19 infection, but will not necessarily disclose any mild case or infections among less-senior members of staff.

Samuel Brooks, from law firm Macfarlanes, says the majority of UK hedge fund firms have no protocol for disclosing such medical details and are not legally required to do so.

Under Financial Conduct Authority regulations, UK financial services companies must report any material issues affecting their business and must pay “due regard” to their clients’ interests.

Kristofer Tremaine, founder and chief executive officer of London-based alternative investment firm Kimura Capital, says firms have a “duty” to advise investors if any key member of staff falls ill with a condition that “incapacitates them beyond a reasonable period of time” and that a hospital admission due to coronavirus would qualify as such, according to *Reuters*.

The news service cites James Sivyer, an analyst at HFM, as saying that the consensus among 25 hedge fund firms is that the virus has spread to such a degree that a mild infection would not be seen as a major event.

He notes that no hedge fund he has spoken to has informed investors of mild cases or has plans to do so.

Reuters says the key person risk has long been seen as a potential problem for the UK's hedge fund industries.

However, some hedge fund firms will only disclose employees' medical details if the situation gets critical.

Reuters quotes one unnamed portfolio manager as saying that investors would be informed if he was "going to die from it".

By Sandra Heistruvers

- To read the Reuters article cited in this story click here.

EU and UK fund industries at odds over Mifid research unbundling

26 May 2020

The French and German asset management trade bodies are lobbying the EU for a change to research unbundling under Mifid II in a move that puts them at odds with the UK. So reports *FTfm*.

Under the revised Mifid framework, which came into effect at the beginning of 2018, asset managers must separate the cost of research from trading commissions paid to brokers to reduce inducements and conflicts of interest.

Critics of the unbundling of research argue the regulation has lowered the coverage and quality of research for small and medium-sized companies, according to *FTfm*.

The European Commission's ongoing review of the Mifid II has revived discussions surrounding the controversial rules, which critics argue have a negative impact on research coverage and quality, particularly for small and midsized companies.

FTfm says the trade bodies representing the France and German fund industries, which together represents firms with over €9 trillion in assets, have broken ranks with the UK, whose financial regulator, the Financial Conduct Authority, was the main driver behind research unbundling under Mifid II and has defended the effectiveness of the regulations.

The publication says the diverging approaches to research unbundling between the UK and continental European fund houses have emerged in responses to the Commission's public consultation for its Mifid review, which closed last week.

The BVI, Germany's main fund industry body, calls on the EU to "review the unbundling rules focusing on market practice, how research costs are allocated and [ensuring] appropriate research coverage" for small and medium-sized companies, according to *FTfm*.

The Frankfurt-based association argues that increasing issuer-sponsored research, which can be distributed to investors for free under Mifid, would result in better coverage of smaller companies.

France's fund industry body, the AFG, echoes this approach in its response, saying the new regulations have "profoundly changed" the research landscape and have reduced the quantity and quality of investment research, according to *FTfm*.

Mifid II has also previously been criticised by the French watchdog, the Autorité des Marchés Financiers.

Meanwhile, the UK's fund industry body, the Investment Association, argues that the decline in the amount of research has been primarily due to a reduction in duplication from different providers.

The IA, whose members look after more than £7.7 trillion (€8.6 trillion) in assets, says it has not seen a "material issue" with small and medium company research or a decline in quality of research overall, adds *FTfm*.

Separately, *Funds People* reports that Spain's financial regulator, the CNMV, has asked the Commission in its response to the Mifid consultation for a "radical reconsideration" of the research unbundling rules.

By Sandra Heistruvers

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Nearly half of Invesco's UK funds underperform

26 May 2020

Nearly half of Invesco's UK-domiciled funds with some £24bn (€26.7bn) in combined assets are underperforming, *The Sunday Times* reports.

The asset manager's first value assessment report, which was published on Friday, shows that 24 of its 54 UK funds are performing worse than their sector peers or are failing to meet Invesco's expectations.

Under recently introduced rules, authorised fund managers' boards must evaluate criteria, including performance, quality of service and costs, to determine whether investors have received value from the funds they invest in.

Invesco's largest fund, the £8.5bn Global Targeted Returns, is among its underperforming funds, having lost 1.8 per cent over three years compared with a 0.4 per cent fall for its sector.

The multi-asset fund is designed to "achieve a positive total return in all market conditions over a rolling three-year period", according to *The Sunday Times*.

The publication says the firm's second-largest fund, the £3.4bn Invesco High Income, has dropped by 38 per cent over three years versus a 10 per cent decline for the sector.

Invesco earlier this month replaced Mark Barnett as manager of the fund.

Invesco, which manages over £900bn in assets globally, insists it provides a good service to investors overall.

The Sunday Times quotes Invesco's Doug Sharp as saying there is a "clear improvement plan in place and [the firm] will continue to monitor and take action until [the funds] deliver good value".

The firm adds it is "continuously looking at ways of improving long-term performance".

Invesco declined to comment further to *The Sunday Times*.

Ignites Europe reported last month that the firm had decided to cut fees on a range of UK-domiciled funds as authorised fund managers comply with the UK's new rules on assessing fund value.

Charges at nine Invesco funds, with £4.4bn in combined assets, were reduced by an average of 0.13 per cent in April.

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By Sandra Heistruvers

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Unigestion trims sales team in restructure

By Alf Wilkinson   26 May 2020

Swiss fund manager Unigestion is restructuring its marketing and business development activities in a move that will see the departure of several members from its sales team.

The firm says it is reorganising its global business development activity " to align it with its strategic positioning and maximise how it delivers value to clients".

The restructure will see Unigestion's marketing and business development units brought together under a single reporting structure.

According to the Swiss manager, this change "reinforces the focus on clients across the full spectrum of sales and marketing activity".

Head of marketing Frank Maret and other members of the sales team will exit the firm as a result of the changes. It is understood that fewer than 10 salespeople will depart.

Mr Maret arrived as head of global marketing and brand in 2017, having served as head of distribution at Canada Life Investments for six years.

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Unigestion also says it has made changes to its sales team as it “continues to pursue areas of growth and aligns its sales coverage model with areas of sales and investment expertise”.

“The overarching goal of these changes is to emphasise growth opportunities where we see potential and address areas where we wish to make further progress,” according to the firm.

Unigestioni adds that it will be “announcing new hires in due course”.

Fiona Frick, the Swiss asset manager’s chief executive officer, says: “These changes will enable us to service our clients more effectively and reinforce anticipated growth areas within the firm.

“We would like to thank them all for their valuable contribution and wish them the best in their future endeavours.”

Merian drops planned office move

By Alf Wilkinson 26 May 2020

Merian Global Investors has abandoned plans to move to a new London office, ahead of its acquisition by Jupiter Asset Management.

As *Ignites Europe* reported in October last year, the asset manager formerly known as Old Mutual Global Investors planned to move its London base to 25 Copthall Avenue, in the City of London, in April of this year, leaving the office it currently shares with former parent company Quilter.

Merian said at the time that the new office was a “high-quality, open-plan space in the heart of the city” that would provide “room to grow”.

However, a spokesperson for the UK fund house says it is “no longer [its] intention to move to the Copthall Avenue office”.

“Merian employees moving to Jupiter will be based in Jupiter’s office following completion, subject to coronavirus return-to-office plans,” they add.

Speaking last week after Jupiter shareholders approved the acquisition, chief executive officer Andrew Formica said the firm remains “on track to complete the acquisition on, or as soon as possible after, July 1 2020”.

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The Merian spokesperson says there are no details currently on how many of its workforce, which comprises 233 employees, of which 57 are investment professionals, will move to Jupiter.

In December, two months before the Jupiter tie-up was unveiled, Merian said it would cut jobs as part of a restructuring following a review of its business.

At the time Mark Gregory, Merian’s CEO, said the decision was made “against a very difficult market environment” and with a view to positioning the firm to “maximise future growth and reduce expenditure”.

“This is not a decision we have taken lightly, and will mean the loss of some very talented colleagues who have contributed significantly to the success of the business,” he added.

Additional reporting by Ed Moisson.

Premier Miton execs take pay cut

By Sandra Heistruvers 26 May 2020

Listed UK asset manager Premier Miton has announced that its senior management team has decided to take a temporary pay cut in response to the coronavirus crisis.

The salary reduction for executives at the fund house, which is the result of last year's merger between Miton Group and Premier Asset Management, will be in place for a period of six months.

The firm says in its half-year results that it has a dedicated task force managing the business during the Covid-19 pandemic and that all systems are operating as usual, despite its employees working from home.

Premier Miton posted net outflows of £389m (€433m) in the six months to the end of March, which the firm describes as a "difficult period for UK-based investors" because of Brexit, the virus outbreak and December's general election.

Assets under management at the end of March totalled just over £9.1bn, down from more than £11bn when the merger completed in November last year.

However, assets under management climbed back to over £9.9bn in April, with the firm posting net inflows of £19m for the month.

Profits before tax in the six months to the end of March fell to £5.3m, down from £7.2m during the same period of the previous financial year.

Premier Miton says it faced exceptional costs of £3.1m, most of which were associated with the merger.

Employment restructuring costs totalled £900,000, representing redundancy and associated legal costs arising from the removal of duplicated staff roles, and the rationalisation of the board.

The asset manager also says that post-merger integration is ahead of target.

Premier Miton is not the only asset manager to announce that senior executives are taking a pay cut due to the pandemic, with the chief executive officers of Schroders, Fidelity International and Franklin Templeton also seeing their pay reduced temporarily.

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Labour Party launches asset management charm offensive

26 May 2020

The UK's Labour Party has embarked on a charm offensive under its new leader Keir Starmer with the aim of improving its relationships with local asset managers and banks, *FTfm* reports.

Several senior members of Labour's new front bench, including shadow City minister Pat McFadden, have had various meetings with representatives from the banking and fund management industries since Sir Keir replaced Jeremy Corbyn as leader of the party last month.

FTfm says Mr McFadden held video meetings with representatives from Standard Life Aberdeen, the UK's largest listed asset manager, and the Investment Association, the UK's main fund industry body.

People familiar with the situation tell the publication that the meetings were organised by Mr McFadden so that he could familiarise himself with the UK asset management industry.

FTfm says the meetings come as the political significance of the asset management industry is growing as a result of its rapid expansion and the role it plays in providing financing for companies, meaning it could play an important role in helping the UK economy recover from the coronavirus crisis.

One asset management executive tells the publication that Labour's new approach is a "sea change" compared with the five years of Mr Corbyn's party leadership.

Mr Corbyn and former shadow chancellor John McDonnell were seen as hostile to the City, which alienated many in the UK's financial services industry.

Iain Anderson, head of public affairs group Cicero, says the Labour front bench is adopting "a completely different approach" compared with the previous leadership, according to *FTfm*.

He notes "there is now an entirely constructive and open relationship, and talk of partnership with finance again".

The IA says it welcomes the engagement with Labour.

FTfm adds that Mr McFadden's meetings with UK asset managers have so far centred on issues such as sustainable investing, the UK's net-zero carbon emission target, fund houses' contribution to the UK's economic recovery and the role of pensions in infrastructure funding.

By Sandra Heistruvers

- To read the FTfm article cited in this story click here.

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