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THE INTERNATIONAL NEWSPAPER OF MONEY MANAGEMENT

Defined Contribution

Record keepers gear up for advice role

Firms prepare to add to their fiduciary duties in response to DOL conflict-of-interest rule

By ROBERT STEYER

Several large record keepers are expanding their fiduciary duties by providing more advice to defined contribution clients in response to the Department of Labor's conflict-of-interest rule that is slated to take effect in April.

They are willing to take on more responsibilities in areas such as investment product selection, IRA rollovers and even financial wellness. In many instances, what was considered education before the regulation will be considered advice and a fiduciary event by the Labor Department.

"We took a long hard look at this," said Margaret McKenna, executive vice president of relationship management for Fidelity Investments, Boston. "Guidance is now advice. It's a big, bold change for our industry."

Record keepers have walked a tightrope between offering advice and providing education to sponsors and participants. The conflict-of-interest rule — also called the fiduciary rule — is designed to identify what the DOL views as distinctions between the two.

Company executives acknowledge that additional fiduciary responsibilities will carry additional risk, and they said they are prepared.

"The rule provides good guidance on how to comply," said Patrick Murphy, the Boston-based president of John Hancock Retirement Plan Services. "If you comply, you can stay out of hot water."

Empower Retirement is "accounting for the additional risk that fiduciary responsibilities bring," said Ed-

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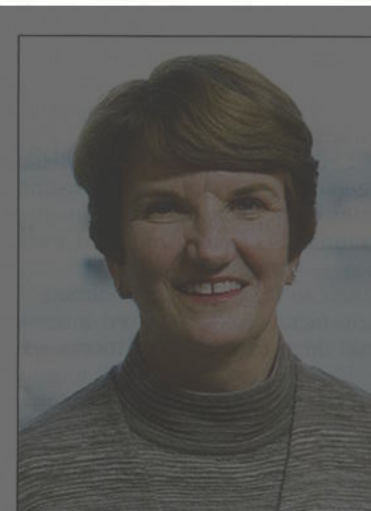
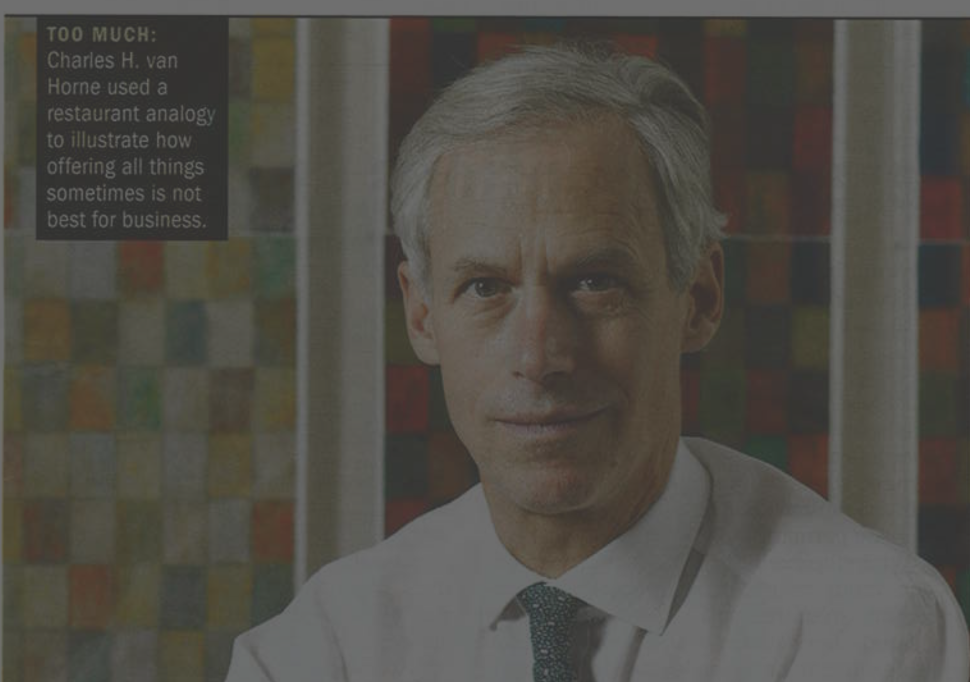


WHOLE NEW GAME: Margaret McKenna called the outcome of the DOL rule 'a big, bold change for our industry.'



TOO MUCH: Charles H. van Horne used a restaurant analogy to illustrate how offering all things sometimes is not best for business.

Dennis Brack/Bloomberg News

Consultants

Alternatives firms get gobbled up

General consultants go after brethren to broaden bench

By ARLEEN JACOBIUS

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■ Managers also going after alts firms. Page 2

Alternative investment consultants are being snapped up by general investment consultants, a growing trend that some fear could result in increasing conflicts of interest and an insufficient number of specialist firms.

Consulting is a tough business with increasing pressure to lower fees. To grow their business, alternative investment consultants already have been moving into more lucrative money management.

This latest episode of consolidation is catching the attention of asset owners, pri-

SEE CONSULTANTS ON PAGE 27

SPECIAL REPORT MANAGER M&A

Major deal makes the difference

Amundi-Pioneer transaction caps off otherwise quiet year

By RANDY DIAMOND

MORE ON M&A

■ For a list of the 10 largest transactions of 2016, go to **Page 15.**

Merger and acquisition deal value in the global money management industry totaled $25.5 billion in 2016, up 18% from 2015, boosted by the Dec. 11 announcement of the biggest deal of the year: Amundi Group's $3.74 billion purchase of Pioneer Investments, the asset management arm of Italian bank UniCredit SpA.

Without that transaction, the estimated value would have totaled $21.76 billion for the year, just slightly above 2015's $21.6 billion, show data from New York-based investment bank Cambridge International Partners LLC.

Both 2016 and 2015 fell markedly below 2014's $33.1 billion, which was bolstered by TIAA-CREF's purchase of Nuveen Asset Management and the London Stock Exchange Group's purchase of Russell Investments.

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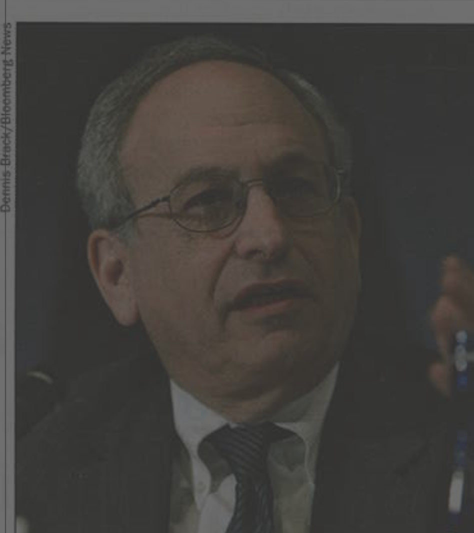

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Investing

Raft of unknowns make Fed direction tough to predict

By HAZEL BRADFORD

Fed watchers trying to predict when and where interest rates will go in 2017 will have plenty of challenges, including a new president with an ambitious agenda, new members of the Federal Reserve's rate-setting committee and the U.S. economy itself.

Once rates do start rising, sponsors of defined benefit plans will be paying close attention to how that impacts their decisions about

SEE FED ON PAGE 26

SOUND BITE

FISHER INVESTMENTS' KEN FISHER: 'A CEO that's successful is a quitter, in terms of quitting more and more functions until basically they quit themselves out of everything.' Page 6

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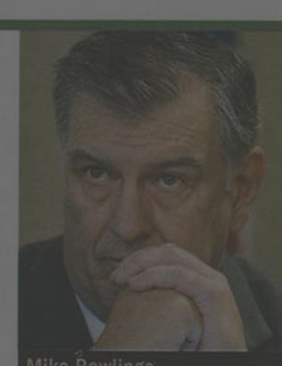
Competition: Some alts managers say they are competing more with consultants for money management business.

Dateline Dallas: Dallas Mayor Mike Rawlings requested the state police investigate the $2.1 billion Dallas Police & Fire Pension System for criminal offenses. Separately, the system moved ahead with plans to liquidate investments with seven managers.



Mike Rawlings

Rose-colored glasses: During the past five years, U.S. market forecasters repeatedly have proffered overly optimistic near-term predictions, write Two Sigma's Jeffrey N. Saret and Subhadeep Mitra in Portfolio Management. Asset allocators might want to account for this overly optimistic bias when formulating their own outlooks.

SPECIAL REPORT | MANAGER M&A

Values rise; deals down

CONTINUED FROM PAGE 1

"It was a bit of a gloomy year," Cambridge President John Temple said of 2016, adding that money managers confronted long-standing negative secular trends: the shift to passive management, rising pressure from investors to cut fees and increasing regulatory costs.

Mr. Temple said that meant managers weren't playing offense in terms of M&A activity, which led to fewer transactions. Instead, managers opted for a defensive approach, looking at deals that would help them improve financial performance in a challenging environment.

The value of deals involving U.S.-based managers totaled $11.4 billion in 2016, down 5% from 2015's $12 billion, the Cambridge data show. International transaction value, powered by the Amundi-UniCredit deal, totaled $14.1 billion in 2016, up 46.9% from the previous year.

The number of individual M&A deals fell to 178 globally, Cambridge data show, down 13.6% from 2015's 206.

In the U.S. there were 96 deals, down 9.4% from the prior year's 106. Internationally, there were 82 deals in 2016, down 18% from 2015.

When wealth management transactions are excluded from investment management transactions, the Cambridge data show $9.8 billion in deal value involving U.S. acquisitions in 2016, $100 million more than 2015. International acquisition deal value reached $8.4 billion in 2016, $600 million more than the previous year.

Niche plays, savings

Mr. Temple said many of the M&A deals that occurred in 2016 played along two key themes: Managers looking to acquire firms with niche investment strategies not as vulnerable to the shift to passive strategies, and those firms looking to cut costs through consolidation.

Deals involving niche strategy plays, he said, included Wells Fargo Asset Management's acquisition of quantitative investment firm Analytic Investors and Legg Mason Inc.'s acquisition of a majority interest in real estate investment firm Clarion Partners. The two biggest deals of the year, Amundi-Pioneer and the announced merger of Janus Capital Group and Henderson Group, fell into the consolidation-savings category, he said.

Cost savings for the Amundi-Pioneer combination, buoyed by a 10-year distribution agreement with UniCredit, was estimated at $160 million a year, along with cross-selling synergies of $30 million a year, he said.

Mr. Temple said the Janus-Henderson deal is expected to result in cost savings of $110 million a year (equivalent to 15% of earnings before interest, taxes and amortization) and an "ambition" to deliver 2% to 3% of net new money through cross-selling.

"Underscoring the importance of this (consolidation theme), five of the top 10 transactions in the industry globally were consolidations, compared to, on average, just two out of the top 10 over the last five years," Mr. Temple said.

He said private equity firms played less of a role in the largest transactions in 2016 than in previous years, although they still were active in many deals.

Share prices down

Reflecting what investors saw as a poor outlook for asset management companies in most of 2016, shares of U.S. publicly traded asset managers as a group were down 9.6% for 2016 through Nov. 7, compared to a rise of 4.3% for the S&P 500. But after Donald Trump won the presidential election, asset management stocks saw a large bounce upward, growing at a greater rate than the S&P 500. From Nov. 8 through Dec. 31, U.S. asset management stocks were up 11.4% compared with the S&P 500's climb of 5%.

The improved outlook for asset management stocks after Nov. 7 wasn't necessarily a spur for M&A deals, however.

Samiye Yildirim, U.S. asset management M&A leader for consulting firm PricewaterhouseCoopers in New York, said some M&A deals that could have been in the works before the election might have lost their luster because valuations became too high after the market uptick.

Ms. Yildirim agreed a major reason for money manager M&A in 2016 was the need for cost savings among active managers to better compete in a marketplace with an increasing emphasis on passive strategies.

She said the Department of Labor fiduciary rule scheduled to go into effect in April (although it's unclear whether the Trump administration will kill the rule) is also putting pressure on money managers to achieve savings through consolidation so they can reduce fees. She said the rule will mean money managers increasingly will be subject to scrutiny by consultants and advisers over fees they charge, in addition to increased emphasis on investment performance.

After the $3.74 billion Amundi-Pioneer deal and the $2.6 billion Janus-Henderson combination, only one other transaction had a purchase price that exceeded $1 billion, Cambridge statistics show. That was the $1.34 billion deal by private equity firms Warburg Pincus LLC and General Atlantic LCC to exercise early their 2018 option to sell back the 50% stake in Santander Asset Management to Banco Santander SA in 2013.

For UniCredit, two earlier attempts to sell Pioneer fell through. The bank put Pioneer on the market in 2010 and Amundi announced a purchase deal in 2011, only to be blocked by Italian financial regulators. A deal announced in 2015 to merge Pioneer Investments with Santander Asset Management fell apart in July 2016. In a news release at the time, UniCredit said that in the face of the "absence of any workable solution" to meet all regulatory requirements to complete the merger, "the parties have concluded that ending the talks was the most appropriate course of action."

Mr. Temple said the Amundi-Pioneer deal is considered more likely this time around because of UniCredit's financial issues. "Italian regulators are not thought to be in a position to block the deal given the urgent need to recapitalize UniCredit, of which this sale is an important component," he said.

UniCredit announced last month a multiyear e13 billion ($13.8 billion) recapitalization plan because of bad debt and low profitability.

Nothing big for 2017

Mr. Temple said he does not expect large transactions like the Amundi-Pioneer and Janus-Henderson deals in 2017 because it would be hard to duplicate the complementary nature found in both consolidations.

"There are very little duplications among investment teams," he said. "There are not many areas that overlap. There is very little loss of clients expected."

He said Milan-based Pioneer's presence in Australia, Germany, Italy and the U.S. will complement Amundi's presence in France, Spain and Asia.

In the Janus-Henderson deal, Mr. Temple said Janus' strengths in U.S. equities and U.S. fixed income will complement Henderson's strengths in global and European equities and fixed income and its alternatives savvy in the U.K. and Europe.

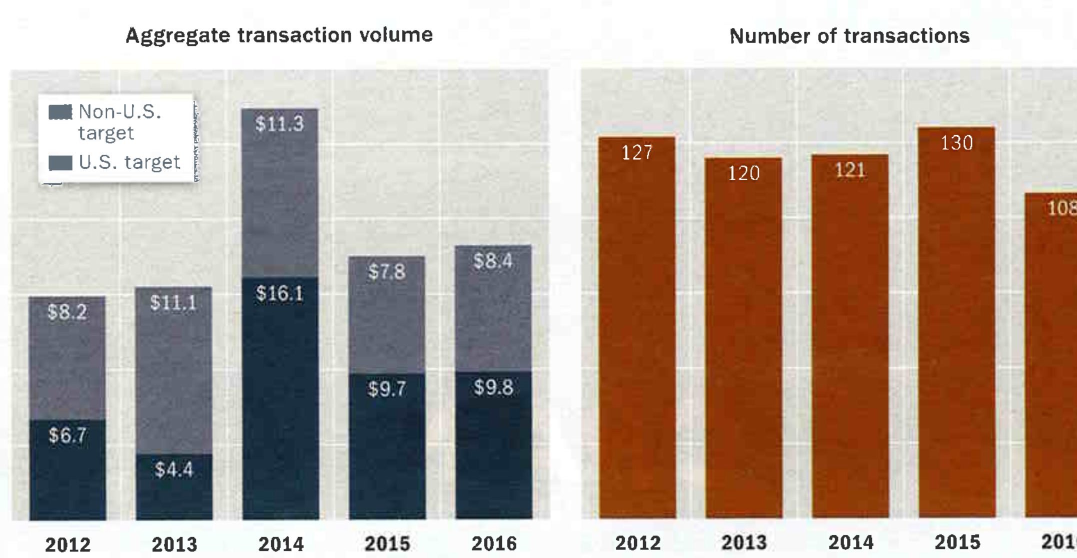
Mr. Temple said most other large managers could not do such a consolidation effectively. An example he cited was a large money manager like Franklin Resources Inc., with $714.4 billion in assets under management, which has struggled with

Doug Goodman

ALL TOGETHER: Cambridge's John Temple saw 2016 as a year of consolidation, identifying five of the top 10 deals globally as based on that single theme.

Fewer transactions, but value up

Investment management transactions excluding private wealth. Dollar figures are in U.S. billions.



Source: Cambridge International Partners

The 10 largest investment management transactions of 2016

Ranked by value of deal. All amounts are in U.S. dollars.

Acquired	Assets under management (billions)	% acquired	Acquirer	Amount paid (millions)	Strategic rationale
Pioneer Investments Milan	$234.0	100%	**Amundi**	**$3,740**	Assuming this latest iteration of UniCredit's six-year saga trying to sell Pioneer Investments succeeds, Amundi will become the eighth-largest asset manager globally and cement its position as a European leader.
Janus Capital Group Denver	$195.0	100%	**Henderson Global Investors**	**$2,600**	As pressure grows from low-fee passive investments, Janus and Henderson merge to form a global investment management firm with complementary distribution strengths and products.
Banca della Svizzera Italiana (BSI) Lugano, Switzerland	$88.9	100%	**EFG International**	**$1,340**	Consolidation of Swiss private banking takes a further step forward with the combination of EFG and BSI, which troubled Brazilian investment bank BTG Pactual was forced to sell after only a year of ownership.
Santander Asset Mgmt. Madrid	$183.0	50%	**Banco Santander**	**$1,300***	Warburg Pincus and General Atlantic exercise early their 2018 option to sell back to Banco Santander the 50% of Santander Asset Management they had purchased in 2013.
Towry London	$12.8	100%	**Tilney Bestinvest**	**$855**	Palamon Capital Partners exits its highly successful 13-year rollup of U.K. private wealth firms by selling to Tilney Bestinvest, a similar rollup backed by private equity investor Permira Funds.
Petershill Fund I interests New York	$55.0	Var.	**Affiliated Managers Group**	**$800**	Underlining the difficulty of exiting minority equity positions in individual hedge fund managers, Goldman Sachs' Petershill Fund I sold in a package deal its remaining investments – Winton Capital Group, Capula Investment Management, Partner Fund Management, Mount Lucas Management and CapeView Capital.
AssetMark Financial Holdings Concord, Calif.	$29.3	100%	**Huatai Securities**	**$780**	China-based Huatai Securities makes its first U.S. investment, buying a leading turnkey asset management program providing investment solutions to financial advisers. It also enabled private equity investors Genstar Capital and Aquiline Capital Partners to make a profitable exit.
H.I.G. Capital Miami	$20.0	15%*	**Dyal Capital Partners III**	**$675***	Structured as an evergreen fund to sidestep the "exit" issue, Neuberger Berman's Dyal Capital Partners III, a $4 billion-plus fund, has already made five minority investments in private equity managers of which this is the largest.
EnTrust Capital New York	$12.0	100%	**Legg Mason**	**$675***	Legg Mason doubles down on its prior investments in Permal Group (2005) and Fauchier Partners (2013) by combining them with Gregg Hymowitz's EnTrust Capital, forming the industry's fifth-largest hedge-fund-of-funds company. Mr. Hymowitz received $400 million and 35% of the combined EnTrustPermal.
Clarion Partners New York	$40.0	83%	**Legg Mason**	**$585**	Legg Mason gets a premier U.S. direct real estate investment platform, while private equity investor Lightyear Capital exits its position after supporting management's $100 million buyout from ING Group in 2011.

*Estimated. Source: Cambridge International Partners

net outflows the past several years.

"A merger could result in a cost saving, but it can also result in a huge client loss as well because of a huge investment team overlap between the acquired entity and Franklin," he said. "Franklin already has a investment teams in almost every strategy you can think of, so it could be very difficult for them to find a manager that they can combine with."

More likely, he said, are smaller consolidations, such as Virtus Investment Partners Inc.'s $573 million purchase of RidgeWorth Investments, announced in December. Mr. Temple said Virtus won't tamper with RidgeWorth's multiboutique structure, so the risk of client defections should be minimal.

Another major deal in the U.S. was State Street Corp.'s purchase of active manager GE Asset Management for $485 million. The deal, which was announced in May, closed in July.

In terms of investment management, the firm's State Street Global Advisors subsidiary was mainly known for its passive strategies and its ETF franchise.

While most of GEAM's approximately $100 billion in assets under management were for General Electric Co.-related benefit plans, Mr. Temple said the deal allows SSgA to offer a broader range of investment options, including cross-selling existing clients strategies in alternatives, and active fundamental equity and fixed income.

There will be more deals ahead in 2017 for active equity managers, believes Elizabeth Bloomer Nesvold, managing partner of New York-based investment bank Silver Lane Advisors LLC.

Ms. Nesvold said she started getting calls about six months ago from foreign buyers such as banks and asset management firms interested in M&A deals involving firms specializing in U.S. active equity strategies. Interest has picked up since the November election, she said.

Investment managers focused on active equity strategies had been "unloved," she said because it was difficult for them to beat passive strategies because market correlation has been high across many, if not most, equity sectors in recent years.

"Since the election, we have seen more diffusion in terms of stock market returns and that creates opportunities for active managers," she said.

M&A action starting early in new year

The new year started with a bang for mergers and acquisitions in the financial sector.

Mackenzie Financial Corp. and New York Life Investments both announced plans to acquire stakes in other money management firms.

Mackenzie Financial, a Winnipeg, Manitoba-based affiliate of holding company Power Financial Corp. Group, will acquire a 10% stake in Beijing-based China Asset Management Co. for roughly 2.4 billion renminbi ($346 million).

A news release from Mackenzie's parent company, IGM Financial, said the deal is expected to close during the first half of 2017. Mackenzie also has the option to purchase an additional 3.9% equity stake in China Asset. The stake can be purchased in January through another purchase agreement.

Mackenzie Financial Corp. is acquiring the 10% stake from a non-strategic shareholder. A spokesman for China Asset Management Co. could not immediately identify the shareholder.

Trish Tervit, a spokeswoman for Mackenzie, couldn't be reached for comment.

With the purchase, the Power Financial group's combined stake in China Asset Management will come to 20%. Power Financial purchased an initial 10% stake in the firm in August 2011 for roughly $270 million.

China Asset Management is a leading fund management company on the Asian mainland, with assets under management of roughly 1.1 trillion renminbi as of June 30.

Mackenzie has C$63.2 billion ($46.7 billion) in assets under management.

In New York, New York Life Investments agreed to acquire a majority stake in Credit Value Partners, a boutique investment firm specializing in opportunistic and distressed debt and high-yield corporate credit, spokesman Kevin Maher said.

The acquisition, which is subject to customary closing conditions, is expected to close in the first quarter. Terms of the transaction were not disclosed.

CVP, which has more than $2 billion in assets under management, will act as an independent and autonomous investment firm.

The acquisition of CVP, based in Greenwich, Conn., adds opportunistic and distressed debt capabilities to New York Life Investments' alternatives offerings, which include private equity, mezzanine debt, equity co-investing, middle-market lending, real estate, hedged strategies and real assets

These strategies are managed by New York Life Investments and its boutiques, which include Candriam Investors Group, Cornerstone Capital Management, GoldPoint Partners, IndexIQ, MacKay Shields and Private Advisors.

New York Life Investments had $280 billion in assets under management as of Sept. 30.

This story was written from reports by reporters **Douglas Appell** and **James Comtois**.