FUNDfire
A Financial Times Service

Print | Close Window

Man Group Eyes US Growth with Acquisition

By Laura Suter June 11, 2014

Man Group has acquired U.S. hedge fund of funds shop **Pine Grove Asset Management** in a bid to expand its U.S. presence, while it is in continued talks with quant manager **Numeric Holdings**.

Currently, Man Group has less than 10% of its $56 billion in assets under management in the U.S., despite having a presence in the country for a number of years. The firm sees "massive potential" in the market and is using the acquisition and potential acquisition to expand its U.S. distribution.

Pine Grove, a $1 billion credit-focused fund of funds manager, has a predominantly U.S. client base, with around two-thirds of its assets coming from institutional investors. While a small deal, Man's hope is that it can leverage Pine Grove's existing distribution.

"Whilst small, we believe this deal demonstrates Man's intentions to use acquisitions to improve its access to U.S. clients, and to boost its organic earnings growth outlook," say **Abhijeet Sakhare** and **Haley Tam**, equity analysts at Citigroup, in a research note.

"The Americas, and the U.S. in particular, [remain] a key geographical focus for future growth," said CEO **Manny Roman** in the manager's 2013 annual report. "The potential in this huge market is very significant and the team continues to make good progress, however, we expect it will take time before we see significant traction."

The U.K.-based firm has made no secret of its hunt for merger and acquisition targets, with a regulatory change in Europe having boosted its surplus cash for acquisitions to $550 million, plus $992 million in cash and short-term deposits. "We continue to look for opportunities to grow the business through selective acquisitions," said Roman.

In particular, he identified the businesses Man was interested in pursuing. "We continue to look at other possible bolt-on acquisitions (particularly in the fund of funds and long-only space) ensuring that we remain disciplined on price, structure and cultural fit," he said in the H1 interim management statement last year.

However, the Pine Grove acquisition is unlikely to make a dent in that $550 million surplus capital, with estimated pricing for the deal being "easily met by Man's cash resources," says the Citi research note.

Man has confirmed it is in talks for a potential deal with Numeric, which has predominantly long-only strategies. And that deal could be a bigger game changer, says Citi. "If the Numeric deal were actually to happen it could lead to significant changes to earnings forecasts," says the note. "Man has talked previously about its ambitions to access the U.S. hedge fund investor base. Acquiring a Boston-based quant manager could help it achieve this goal."

The Pine Grove acquisition, which is expected to close in the third quarter of this year, will see the company absorbed into the FRM unit of Man, its hedge fund of funds business. U.S. expansion is one outcome of the deal, as well. The acquisition gives Man access to new product lines offered by Pine Grove, including an existing '40 Act fund.

Launching mutual fund versions of its alts products was identified as a key goal in Man's objectives for 2014. "We are assessing our capabilities in the mutual fund space and aim to bring a selective number of liquid alternatives strategies to the mutual fund market in 2014," said Roman.

Under the Pine Grove deal, **Matthew Stadtmauer**, current president of Pine Grove, will become president of FRM, while **Tom Williams**, currently Pine Grove's CIO, will remain in a similar role and will join FRM's investment executive committee. Man states that the investment philosophy, strategy and approach at Pine Grove will not change.

The acquisitions are also intended as a way to diversify Man Group's business away from its AHL strategy, which has hit outflows in recent years. And they are likely to make more acquisitions, says **Victor Hugo Rodriguez**, president & CEO of **LatAm Alternatives** a third-party marketer, and founding president of the Hedge Fund Association.

"Man Group wants to make sure they can have a varied broad range of vehicles for when their distribution and sales people are trying to reach new clients. I think now is the moment where they are pulling the trigger and we will probably see more and more instances where Man is acquiring talent, distribution and opportunities," he says.

Man Group's global AUM shrank from a peak of $80 billion six years ago, to $55 billion at the end of March this year. However, Q1 of this year was the third consecutive quarter of net inflows and the strongest sales quarter for three years, with net sales for its GLG alternatives and long-only funds being partially offset by persistent outflows from FRM funds and guaranteed products.

The firm has been on a cost cutting regime in the past few years, with Roman cutting 20% of headcount in the past year, and 40% of headcount in total, or more than 750 jobs. The firm pledged to cut $270 million in costs since 2012 and says it is ahead of target.

The company is moving in the right direction, says Rodriguez. "What you have is a very robust business that has to be very well managed if you think of the press it has got," he says, referring to repeat press reports about outflows at the company and performance issues with the AHL strategy. "I think they are taking the right steps to take more and better space in the marketplace," he adds.

However, analysts are still pessimistic about future growth for the company globally. GLG and FRM have lower contributions to the company, meaning "it is still going to be a challenge for the next few years for those businesses to grow fast enough to cover the void left by AHL and still cover unallocated costs," says **David**

McCann, analyst at **Numis Securities**, in a research note. "We think management have done a decent job in cutting costs and de-gearing the balance sheet, there are still a number of difficult years ahead and we expect the group in the future will be smaller than it is today."

However, the fund of funds space may not be an obvious area for Man to invest, with the strategies having seen persistent outflows since the financial crisis. Assets in hedge fund of funds peaked in 2007 at an estimated $800 billion, according to Hedge Fund Research (HFR). But since then the strategies have not seen any one year of net inflows.

The outflows are slowing, with HFR data showing that last year saw around $20 billion of net outflows compared to the peak in 2009 of around $118 billion.

For Man the acquisition was based on Pine Grove's strong returns, "Pine Grove has a long and accomplished track record of outperformance," says **Luke Ellis**, president of Man Group.

The firm also sees potential in expanding the fund of fund model beyond direct manager selection and more into a consultancy role, while scale also aids the fund of fund model, giving the firm more scope to negotiate on fees and reduce infrastructure costs.