

# Principal Financial eyes asset manager bolt-ons as mix slowly shifts

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By Matt Blumenfeld

Principal Global Investors LLC's hunt for boutique targets appears to be moving up the priority scale as Principal Financial Group Inc. gradually places more emphasis on an asset management strategy.

Principal Global CEO James McCaughan on March 11 reportedly told Reuters that his firm is eyeing acquisitions of smaller shops that invest in emerging markets and real estate. The company, which is the institutional asset management arm of Principal Financial, is also actively examining opportunities in fixed income or equities managers in frontier markets. While not naming any specific targets, McCaughan told Reuters that he hoped to finalize a purchase, potentially in the real estate space, by the close of 2014.

Asset management has progressively become a more significant focus for Principal Financial, according to RBC Capital Markets analyst Eric Berg, who estimated that about 40% of the insurer's total earnings come from equity-sensitive asset management. Assets under management at its mutual fund business, Principal Global and its international pension operation have soared to \$302 billion from \$28 billion in 2002, Berg said in a March 17 note.

Principal's most active period for asset management acquisitions came in the 2002-2004 period, during which it announced eight deals. In its most recent deal in the space, Principal Global bought a majority stake in alternative manager Liongate Capital Manage-

ment LLP in the first half of 2013 for \$44.0 million. At the time the deal was announced, London-based Liongate managed about \$2.1 billion in commingled funds of hedge funds, managed accounts and investment portfolios.

Berg noted that Principal Financial's exposure to the equity and foreign currency markets has resulted in investor anxiety given the recent underperformance of these markets. He sees these concerns as "overblown." The analyst conceded that forecasts for foreign currency values are more negative than they were several months ago, but he said that the shift would not have a material impact on Principal's earnings. He also explained that if RBC's equities strategists are correct that stocks will appreciate by 15% in 2014, the insurer may actually post a positive surprise for the year.

"While it's easy to see why investors have been concerned about Principal's equity exposure and its exposure to foreign currencies, analysis tells us otherwise — and leads us to our surprising and encouraging conclusion," he wrote.

Principal's desire to snatch up more asset managers is in line with the actions of some of its competitors. Asset management deals involving insurers declined during the financial crisis era and its immediate aftermath, according to a March report from the asset management investment banking group at Sandler O'Neill & Partners, but have risen in each of the previous three years.

Insurers announced 10 asset management transactions in 2013,

## Principal Financial Group asset management acquisitions

Target	Seller	Target country	Announce date	Deal status	Deal value (\$M)
Liongate Capital Management LLP	Liongate Capital Management LLP	United Kingdom	03/04/13	Completed 05/01/13	44.0
AFP Cuprum S.A.	Investor group	Chile	10/08/12	Pending	NA
Claritas Administracao de Recursos Ltda.	Claritas Administracao de Recursos Ltda.	Brazil	03/01/12	Completed 04/02/12	NA
Origin Asset Management LLP	IPGL Ltd.	United Kingdom	07/07/11	Completed 10/03/11	66.0
Finisterre Capital	Finisterre Capital	United Kingdom	04/18/11	Completed 07/01/11	84.6
HSBC AFORE S.A. de C.V.	HSBC Holdings Plc	Mexico	04/11/11	Completed 08/08/11	198.0
Morley Financial Services Inc.	Nationwide Mutual Insurance Co.	USA	06/22/07	Completed 08/31/07	75.0
WM Advisors Inc.	Washington Mutual Inc.	USA	07/25/06	Completed 12/31/06	740.0
ABN AMRO Trust Services Co.	ABN AMRO Holding NV	USA	12/17/04	Completed 12/31/04	NA
Columbus Circle Investors Inc.	Columbus Circle Investors Inc.	USA	10/14/04	Completed 01/31/05	60.0
Dao Heng Fund Management Ltd.	Guoco Group Ltd.	Hong Kong	02/09/04	Completed 02/09/04	NA
MW Post Advisory Group LLC	MW Post Advisory Group LLC	USA	08/21/03	Completed 01/05/04	101.6
Operadora S.I. Genera S.A. de C.V.	Vector Casa de Bolsa S.A. de C.V.	Mexico	05/07/03	Completed 06/07/03	NA
IDBI-PRINCIPAL Trustee & Asset Mgmt. Cos.	Industrial Development Bank of India	India	03/29/03	Completed 06/24/03	20.0
Afore Tepeyac S.A. de C.V.	Mapfre Mutualidad	Mexico	11/08/02	Completed 02/28/03	57.5
Zurich Afore S.A. de C.V.	Zurich Financial Services AG	Mexico	03/26/02	Completed 05/31/02	49.0
Spectrum Asset Management Inc.	Old Mutual Plc	USA	10/01/01	Completed 10/01/01	NA
Bankers Trust Australia Group	Deutsche Bank AG	Australia	06/17/99	Completed 08/31/99	1,386.0

Data as of March 20, 2014.

NA=not available

Sorted by announce date.

Deal value as of announcement.

Includes pending and completed whole company deals only.

Source: SNL Financial

Sandler O'Neill said in the report, the highest volume since 2009. The targets insurers are looking at are "scattered and less predictable," according to the report, as acquisitions in 2013 spanned institutional business, mutual funds, alternatives and private wealth managers.

Like Principal, most insurers that are actively pursuing asset management deals are doing so to bolster specific divisions or subsidiaries, according to James Abbott, a partner in Seward & Kissel LLP's business transactions group. New York Life Insurance Group subsidiary New York Life Investment Management LLC saw its purchase of Dexia Asset Management, now known as Candriam, as a prime opportunity to expand into Europe and Asia, Abbott told SNL. That transaction added \$100 billion in AUM, pushing New York Life Investments' total AUM to \$511 billion when the deal closed in early February.

While New York Life generally buys a majority interest when it makes asset management purchases, XL Group Plc typically goes the minority investment route, Abbott said. Most insurers look at managers with "fairly traditional" offerings, he noted, but some are willing to push into the hedge fund and alternative space.

"Those are the kind of managers they might seed or take some kind of position in without acquiring them," he added.

Insurance companies and asset managers alike are increasingly looking around the globe when they seek acquisition targets, according to Jay Langan, Deloitte & Touche LLP partner and M&A industry leader for financial services. South America in particular is garnering interest because of the industry's structure in that region. Langan told SNL that asset management in many South American

countries is like "the U.S. about 30 years ago," in that it is bank-driven and pension-focused. Pension managers have much in common with insurance companies, he added, as both types of firms manage large pools of money.

Not every insurer with sizable asset management operations is looking to add more. According to multiple media reports, Northwestern Mutual Life Insurance Co. is aiming to divest its Russell Investments unit, which includes both an index business and an asset management arm. Bloomberg News on March 8 reported that private equity firms and others have shown interest in making a bid for the subsidiary, which could go for as much as \$3 billion.

Langan sees deal activity as dependent on insurers deciding on a "case-by-case basis" whether investment management is core to their respective operations.

"How good you are distributing products is going to drive whether this is something that makes sense for you versus something that's a failed experiment," he said.

Those that choose to move forward with expansion plans may mirror the actions of certain private equity firms. Abbott noted that public alternative asset managers now have very broad operations and, in many ways, insurers are among their biggest competitors for certain targets.

"If it's good for the KKR [& Co. LP]s and Carlyle [Group LP]s, why isn't it for a forward-thinking insurance company that is similarly investing its own funds and trying to build out a business?" he asked.

*Jack Chen contributed to this article.* 