



Another Investment Management Firm Gets Acquired: Who's Next?

Description

Last Friday, private equity firm **Onex Corporation** announced it would be acquiring Canadian investment manager **Gluskin Sheff + Associates** for \$14.25 per share, representing a 28% premium to its previous day's closing price.

That deal followed only 10 days after **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)) announced its own \$4.8 billion deal to acquire majority control of leading U.S. investment management firm **Oaktree Capital Group** (NYSE:OAK) at a 12.9% premium.

Perhaps the news won't come as all that much of a surprise to readers who read my post "How to Play the Rebound in Active Management" from [last October](#).

For some time now, I've been pushing the narrative that there's been a host of active investment management firms trading at unfairly discounted valuations in the market lately.

Mind you, I haven't been alone; it also happens to have been a narrative that's been pushed by Oaktree's co-founder Howard Marks over the past several months.

And the fact that Marks and Oaktree's shareholders voted to retain a 38% ownership of Oaktree following the Brookfield acquisition — in addition to full operating control — speaks volumes to the value that Marks and the other shareholders still see in the business.

Economies, industries, markets, and businesses all tend to move in cycles, and in this respect, I don't think that the current state of the active management business is any different.

The truth is, active managers have been pummeled by the outperformance of passive investing, ETF strategies and closet-benchmarking in recent years, and many have struggled to keep pace with the advent of newer, lower-cost alternatives.

But as Marks pointed out now so long ago, without the presence of active managers policing the markets to ensure securities trade at fair prices, the passive-investing game falls apart.

But the fact remains that the investment management business is more competitive than ever, and there has been a wave of consolidation taking place within the industry in recent years.

Both the Gluskin Sheff and Oaktree deals highlighted the growing need for asset management firms to continue to grow to meet the increasingly sophisticated needs of their client base, particularly institutions.

By combining resources, including technological capabilities, research, and the abilities of in-house staff, these larger “mega-firms” are able to lower their cost bases and pass those savings on to clients in the form of lower asset management fees and commissions.

In this respect, there a couple of very interesting companies still out there who might make as suitable candidates for any future M&A activity.

One is **CI Financial** ([TSX:CIX](#)).

This is a company that has been on my radar for some time now and one that I’ve written about fairly extensively on the Motley Fool Canada.

CI Financial cut its dividend last year in favour of returning cash to its shareholders through a share-buyback program.

CI’s board of directors appears to feel as I do, namely that the company’s share price is significantly undervalued, representing an attractive investment opportunity and smart use of capital.

At a market capitalization of \$4.46 billion, a takeover of CI would be considerably more expensive than the \$455 million Onex paid to acquire Gluskin Sheff, but certainly not out of the reach of the Canadian banks, which are increasingly in search of fee-based business to offset their exposures to historically low interest rates.

On a smaller scale, **AGF Management** ([TSX:AGF.B](#)) makes for another interesting potential takeover target.

At a market capitalization of \$438 million, AGF is decidedly smaller than CI, which only opens the door to a wider host of suiters.

Founded in 1957, one has to wonder if AGF’s shareholders might be in search of their own exit strategy.

At a price-to-earnings multiple of only six times and annual dividend yield of 5.78%, it sure looks like it could be a [good wager](#).

CATEGORY

1. Dividend Stocks
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POST TAG

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TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)

2. TSX:AGF.B (AGF Management Limited)
3. TSX:BN (Brookfield)
4. TSX:CIX (CI Financial)

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