Pensions&Investments

The British are coming! So are other Europeans

More managers go west to grab U.S. business

By SOPHIE BAKER


Yves Choueifaty said TOBAM wants a partner for the U.S. market.

The tide is turning in the U.S.-to-U.K. flow of money managers: A slew of U.K. and European money managers are introducing, and in some cases expanding, their presence in the U.S.

“The U.S. is a large market, which managers in Europe find attractive,” said Michael Kinney, senior researcher in Mercer's equity research boutique, based in London. “However, clients that were once happy to work with managers based in Europe and the U.K. have become increasingly sophisticated. European-based managers need to be able to respond to this sophistication, and having an office in the U.S. for client services reasons makes sense.”

From a business perspective, Mr. Kinney said managers want to diversify their client base outside of Europe. The same goes for strategies. “You can manage a traditional government bond portfolio from anywhere in the world, but if you are looking to make money in the future, you need to widen products. And if you are looking at credit-oriented or absolute-return products, the largest opportunity set from which to build these is the U.S. — so having an office on the ground makes sense,” he said.

Insight Investment Management (Global) Ltd., Legal & General Investment Management, Berenberg and Aberdeen Asset Management are just four of the European managers looking to introduce their products or extend their business in the world's largest pension market.

Some, such as Insight, have the benefit of leveraging a parent's presence in the U.S. Insight, with £273.3 billion ($454.5 billion) under management, is owned by BNY Mellon Asset Management.

“The catalyst for the U.S. expansion was the integration of (sister company) Pareto, a currency overlay boutique, which was integrated into Insight Investment a year ago,” said Philip Anker, global head of distribution at Insight Investment in London — where about 99% of its staff is based.

The manager, which is known in the U.K. for its liability-driven investment prowess as well as fixed-income capabilities, has not made any concerted effort to market itself to the U.S. “Our existing clients were one of the (other) main drivers behind setting up in the U.S.; we already manage money for large U.S. corporates and their subsidiaries in the U.K. and Europe," said Mr. Anker.

The firm also has U.K. and European clients looking to leverage their experience with U.S. subsidiaries, while global consultants have expressed interest in offering Insight's expertise to clients. "Those three strands are quite a powerful calling card," he said.

Big opportunity

The big opportunity for Insight Investment is LDI. The U.S. predominantly uses long duration-matching assets to hedge liabilities, rather than the overlay approach traditional in the U.K. using swaps and cash markets. "This is a rare example where the U.S. market arguably lags the U.K. in terms of the sophistication of the approach toward liability management," said Mr. Anker.

The manager has retained the Pareto team in New York, moving to a new floor in a building above Grand Central station, at 200 Park Ave.. The office is as "identical to London" as possible, and has room to grow.

"We will recruit local market expertise where we need to and embed them in the investment processes established here in the U.K," Mr. Anker said. Technology means staff can work from the U.S. or the U.K., so it will be "relatively easy" to send people on temporary assignment from the U.K. to the U.S., and vice versa, said Mr. Anker.

The next step is to integrate Pareto's strategies onto the Insight platform, while ensuring Insight's offerings meet U.S. regulatory requirements, and leverage its parent's U.S. presence in the first rounds of discussion with potential clients.

Legal & General Investment Management America, LGIM's U.S. affiliate, is also known for its LDI capabilities. It has seen U.S. assets under management increase to $35.2 billion as of Nov. 30, from about $6.4 billion at the end of 2007. In January, Mike Craston, the Chicago-based CEO of LGIMA, told *P&I* he expected the U.S. business "to grow and be more important for the organization."

Meanwhile, German bank Berenberg is also looking to bring a new type of service to the U.S.

"Thirty years ago, nearly 90% of the equities allocation of the typical U.S. pension was invested in the U.S.," said Tindaro Siragusano, head of asset management and private banking at Berenberg, based in Hamburg.

But with more than 40% now invested overseas, "U.S. institutions face higher currency risks than they have ever faced before," he said.

Berenberg's e15.5 billion ($21.2 billion) asset management division specializes in currency overlay strategies and risk management, and plans to bring this to U.S. investors. It established Berenberg Asset Management LLC in December 2013 and hired a CEO, Ed Ho, from Platinum Partners in New York, and a chief compliance officer. Executives plan to formally apply for SEC registration in the first half of this year.

The business is on Fifth Avenue in New York — where Berenberg already has an investment banking presence. "As we grow in the U.S. we will put more people into that office," Mr. Siragusano said.

December 2013 also saw the launch of Paris-based TOBAM's U.S. business. "Three years ago we had zero assets under management in North America," said Yves Choueifaty, Paris-based president at the smart-beta specialist. "Now our U.S. AUM is about 20% of the total ($5.5 billion), so we have reached a point where we believe we have enough credibility in North America to address the second phase of our plan."

That, he said, is to build a partnership in the market.

In 2012, Amundi Asset Management announced a strategic partnership that enhanced the distribution of TOBAM's anti-benchmark strategies. The deal saw Amundi acquire a 17.5% equity stake in TOBAM, from employees and from another minority stakeholder, the $277.8 billion California Public Employees' Retirement System, Sacramento.

Mr. Choueifaty said that any U.S. partnership would be similar to the Amundi distribution agreement, but declined to elaborate.

TOBAM hired Stephane Detobel and Francis Verpoucke as managing directors in New York. Both joined from Amundi in New York.

“They are very senior sales (people) focused on increasing our distribution. Once we have a North America partner, they will become product specialists,” said Mr. Choueifaty.

Not limited

The U.S. invasion is not limited to fixed-income specialists. A spokesman for Winton Capital Management in London confirmed the $26 billion hedge fund manager plans to open an office in New York this year. The spokesman declined to comment further.

About 40% of Winton's AUM is derived from U.S. investors; the firm also has launched two onshore U.S. funds in the past two years. A person with knowledge of Winton said the expansion is also related to its desire to expand the company's long-only equities business.

While these managers have been searching for U.S. exposure for the first time, others have been steadily increasing their presence.

Standard Life Investments, which has $290.8 billion of assets under management, with $6.3 billion in U.S. assets under management, has had a Boston office since 2002, but is looking to build on its popular global absolute return strategies fund to bring its other capabilities to the U.S. “What we are hoping and looking forward to is more interest across the U.S. in those discreet underlying strategies — interest is in global equities right now” and other multiasset strategies, said Jack Boyce, managing director, head of U.S. distribution, based in Boston.

Meanwhile, Aberdeen Asset Management PLC and Schroders PLC have increased their footholds in the U.S. with acquisitions in the past year.

In February 2013 Aberdeen announced it had agreed to acquire New York-based specialist fixed-income manager Artio Global Investors, bringing with it about $14.3 billion of North America assets. Schroders completed its purchase of U.S. manager STW Fixed Income Management in April 2013. At the time Karl Dasher, head of fixed income at Schroders, said the move “accelerates our strategic ambitions in the U.S.” n

This article originally appeared in the February 17, 2014 print issue as, "The British are coming! So are other Europeans".