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## Asset Mgmt Platform Courts U.S. Giants for Expansion

By Richard Henderson March 7, 2017

Asset management platform **iM Square** is talking to large long-only managers, private equity firms and pensions in North America as it seeks additional shareholders to fuel U.S. growth plans.

The platform, which buys minority stakes in small- and mid-sized asset managers it believes have solid strategies but limited distribution resources, is looking for one or two shareholders to join existing owners **Amundi**, **Eurozeo** and **La Maison**. The platform has raised \$100 million and plans to raise an additional \$400 million within three years to buy up to ten minority stakes within that timeframe. Any new acquisitions will join 2016 deals with Chicago bond shop **Dolan McEniry** and Florida manager Polen Capital **Management**, as reported.

iM Square is speaking to roughly ten potential shareholders split evenly between the U.S. and Canada and include the largest long-only managers, private equity firms and pensions, according to **Philippe Couvrecelle**, former chairman of **Edmond de Rothschild Asset Management**, who is leading the firm he co-founded in 2015. The company is working towards an IPO within seven years.

A pension stake would resemble the California Public Employees' Retirement System's holding in **TOBAM** – a Paris-based asset manager co-owned with Amundi and would make sense given pensions' "strategic interest in the asset management industry," as major clients, says Couvrecelle.

For a large asset manager, the deal would help asset growth by being plugged directly in to a distribution platform with high conviction strategies and maintain access to top-performing portfolio managers (PMs) that have a tendency to strike out on their own, he says.

"I think [a large manager buying in] would be the best industrial outcome. Amundi knows how to deal with PMs [and iM Square's model] is a better way to address this issue of compensation," he says, as firms would maintain access to top PMs while avoiding the delicate annual bonus negotiations that often drive them to leave.

Offering access to a strategy as a shareholder will underscore a manager's commitment to the product, compared to distributing a third-party strategy, Couvrecelle says.

Private equity firms may struggle to buy in as they would need to hold the stake on their balance sheet and not within a fund – an option for only a handful of the largest firms. A hedge fund partner may be an option too, Couvrecelle adds.

"We will have to invest in alts at some point. To have an expert in hedge funds [as a shareholder] would be great for us," he says.

The company is set to take the next step in building its U.S. distribution capabilities by launching a business development entity in the U.S. before the end of 2018. This unit will operate under the **iM Global Partner US**

brand and act as a sister unit to a similarly titled European firm that will itself rebrand from **Montmartre AM**, a \$200 million Paris-based manager iM Square acquired last year.

The ideal profile would be an asset manager with strong distribution and poor product. "It's harder to have great product than great distribution – because PMs, if they're good, start their own company," Couvrecelle says. "We're looking for a company used to delivering third-party products to its clients. We will invest in it and restructure it. We will offer European asset managers access through the U.S. entity."

To succeed, this approach will have to overcome several challenges.

Above all, iM Square must clearly outline how it can help a U.S. manager distribute its products at a time when clients, particularly in the institutional channel, have shifted to a solutions-, rather than product-oriented mindset, says **Jackie Charnley**, co-founder of distribution consultant **Charnley & Røstvold**.

"Instead of saying 'I want a long-only growth manager' they might say 'I need more alpha,' 'I need to de-risk,' 'I need more income' – they're looking for the end result. Anyone who does the selling has to have a sophisticated understanding of being able to identify the need and link that to a product or manager," she says.

Attracting experienced distribution personnel with strong relationships will also be key – especially during a time when active managers are competing for replacement searches rather than new institutional assets.

"Public plan people will talk about how much they like this [particular distribution] person [or] they got a sales person who doesn't ask the right questions – who tries to sell product rather than solve the problem," Charnley says.

iM Square's core function of buying minority stakes in small- and mid-sized managers has faced competition from private equity firms, pushing up prices, but the firm says it has a healthy pipeline of prospects and aims to seal up to 10 deals by 2019 with the \$525 million it has raised. These firms will likely sit around the \$15 billion to \$20 billion range, Couvrecelle says.

The Polen deal has offered a boost to iM Square's backers, as the manager's assets have jumped to \$11.2 billion as of Dec. 31 from \$7.5 billion at the time of the deal. Polen has also struck a deal with Amundi to distribute an international equity strategy in Europe. This has helped generate around 20% growth for iM Square overall.

"It gives an example for what is possible," he says of the Amundi distribution deal. "We never guarantee it, but it's possible."

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