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COMPANIES



RMI after asset manager oligopoly

Hanna Barry

JOHANNESBURG – Rand Merchant Insurance (RMI) is gunning for the ‘CIA’ – Coronation, Investec and Allan Gray. Its new asset management business, RMI Investment Managers (IM), has taken minority equity stakes in a number of boutique asset managers, from which it hopes to secure a differentiated earnings stream while challenging the dominant managers.

“RMI IM believes in the characteristics that make independent managers successful,” the investment holding group notes in a 2015 results statement. It lists a high cash conversion rate, high operating margins and low capital intensity with high intellectual capital as some of the qualities that make asset management an attractive industry.

According to RMI, independent asset managers have grown assets under management (AUM) by 19% per annum since 2010 compared to the 9% growth achieved by bank and insurance-tied asset managers (granted off a much higher base).

Despite this, the boutique industry remains highly fragmented, with the top five largest asset managers in the country capturing 51% of the total AUM.

RMI IM effectively wants to help boutiques become better and transform them from third tier asset managers – each responsible for between R3 billion and R5 billion in AUM – to second tier asset managers of a similar ilk to Kagiso and Prudential.

A number of exes can be found among its already impressive line-up of boutique asset managers, including Perpetua, Tantalum Capital and North Star Asset Management.

These include Delphine Govender, ex-Allan Gray, who launched Perpetua in 2012, which today manages just short of R4 billion in mostly institutional assets.

Rob Oellermann, Melanie Stockigt and Mike Lawrenson, all ex-Coronation, formed Tantalum Capital in 2005, a boutique combining hedge funds and long-only funds.

Then there's Adrian Clayton, the ex-CEO of PSG Asset Management, who took the reigns at North Star Asset Management – a multi-asset manager servicing mostly high net worth individuals – late in 2012.

Finally, RMI, which holds stakes in Discovery, MMI and OUTsurance, recently poached the fixed income team from Cadiz. The three-person team previously managed R18 billion for Cadiz and has now beefed up RMI's fixed income team, RMI Specialist Managers.

Helping boutiques break through

In an interview with Moneyweb this week, CEO of RMI Investment Managers, Chris Meyer said that small, independent asset managers in particular find it difficult to crack the very concentrated asset management market without help.

Watch the video to hear Meyer's thoughts on challenges facing asset management entrepreneurs and the reasons for investing in asset managers despite the current tough market:

RMI's plan is to partner with these asset managers on business strategy and distribution. For example, a partnership agreement with MMI (in which RMI holds a 25% stake) will see the insurance giant's 750 tied agents raising the market profile of these asset managers. There may also be potential to tap into the nearly 5 000 independent financial advisers, bank advisers and wealth managers that MMI services, which historically direct money to larger asset managers.

In addition to investments in active managers, RMI IM has invested in CORESHARES, a passive investment management firm offering exchange-traded funds (ETFs) across various mandates. RMI believes CORESHARES has the opportunity to grow rapidly while acting as an industry consolidator.

“Being an active manager gets more difficult every year, as markets get more efficient and clients talk more about index management,” said Meyer. “We think we can play a role to help active managers create profile in the market that they wouldn't be able to do on their own.”

“We also believe that over time, passive investing will play a more important role in the South African savings industry than it does today,” Meyer said.