Case: UK Asset Manager

Bain, Mock Interview

Problem statement narrative

Our client is a private equity firm that is looking at a potential acquisition target. The target is a UK asset management firm that has seen a 33% drop in AUM in the past 18 months. Outside of a valuation analysis of the target (assume this has been done by the client), we need to determine whether or not this is a good acquisition.

Overview for interviewer

The client is a private equity fund that wants you to determine the acquisition prospects of an asset management firm based in the United Kingdom. The interviewer should allow the interviewee to develop 1) a thorough framework on how they would evaluate the problem, 2) an overall recommendation to the client regarding the acquisition, and 3) next steps that offer to either dig deeper in a particular area of analysis or offer ways in which the target company, once acquired, could be improved.

Case Type: Investment (Go/No-Go)

Information to be provided upon request

Explain AUM as total assets under management within the asset manager's portfolio of three broad investment types: retail, institutional, and alternative funds (~75% in retail and institutional funds)

Specific investments within retail and institutional funds include mutual funds (comprised of equities, bonds, money market funds, and others); alternative funds include hedge funds and private equity investments (show Exhibit 1 here).

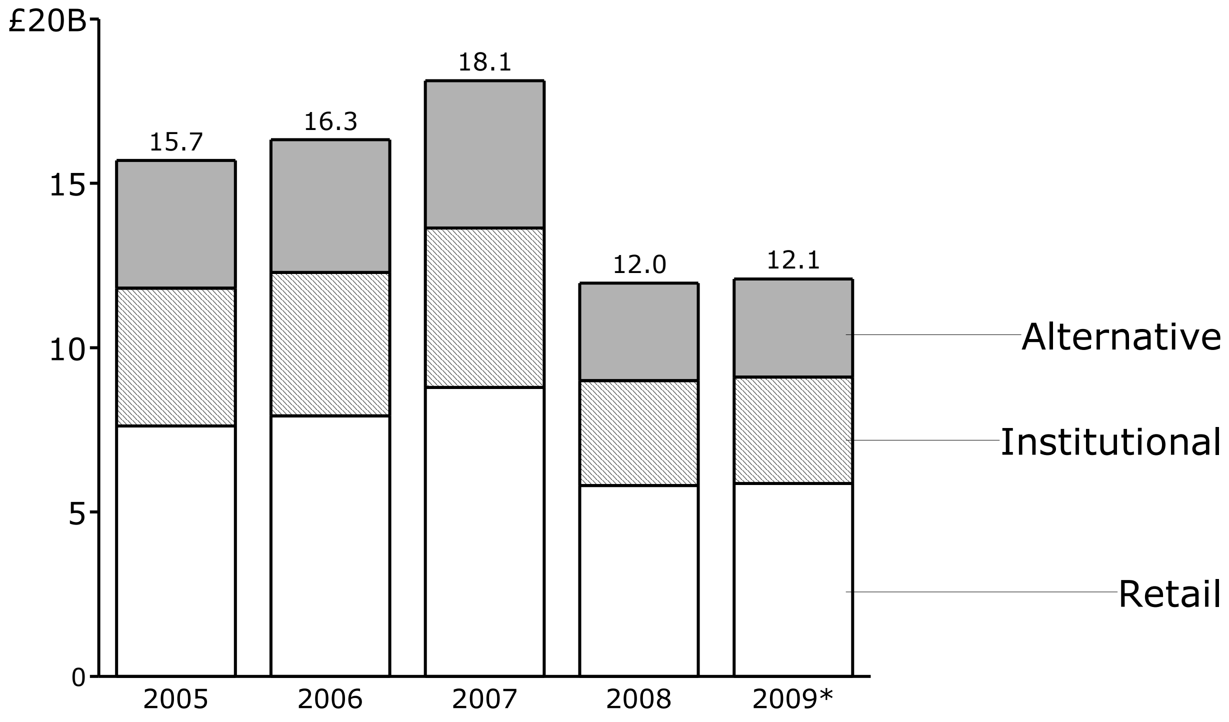
The fund operates predominantly in the UK with a much smaller presence in Germany and Spain.

Potential Issue Tree & Approach to Solving the Case

One possible framework

Market	Competitors	Customers/Channels	Company
•Market size and how this has changed over time by segment, geography, and product mix •Underlying drivers for AUM •How compare across the different business segments	•Target's major competitors •Competitor market share and how this has changed over time •Reputation, product offering, AUM size, customer mix, geographic focus, etc. •Distribution advantages/disadvantages	•Key segments and purchasing criteria •Major institutional customers •Major channel partners (e.g., banks, financial advisors) •Do customers invest in financial institution or individual investment manager? •Customer stickiness	•Profitability -Fee structure (revenues) -Compensation structure (costs) •Portion of AUM declines due to market declines vs. fund redemptions? •Asset managers/key personnel •Performance against benchmarks/competitors
Possible follow-up and guidance to interviewer	**Possible follow-up and guidance to interviewer**	**Possible follow-up and guidance to interviewer**	**Possible follow-up and guidance to interviewer**
• Total UK asset management market £3.4T • AUM driven by: market performance, GDP/wealth, and net capital flows • UK funds market: 75% institutional, 25% retail	•Major competitors include banks, insurance companies, and other fund managers •Target is 10th in both inst. and retail and both are highly fragmented markets • No notable differences in reputation, product offering, mix, or distribution	•Target lost the mandate from a large institutional investor in 2008, accounting for much of its capital/AUM outflows for that year	• Show Exhibit 2 which shows -greater outflows than the market -about equal performance as the market

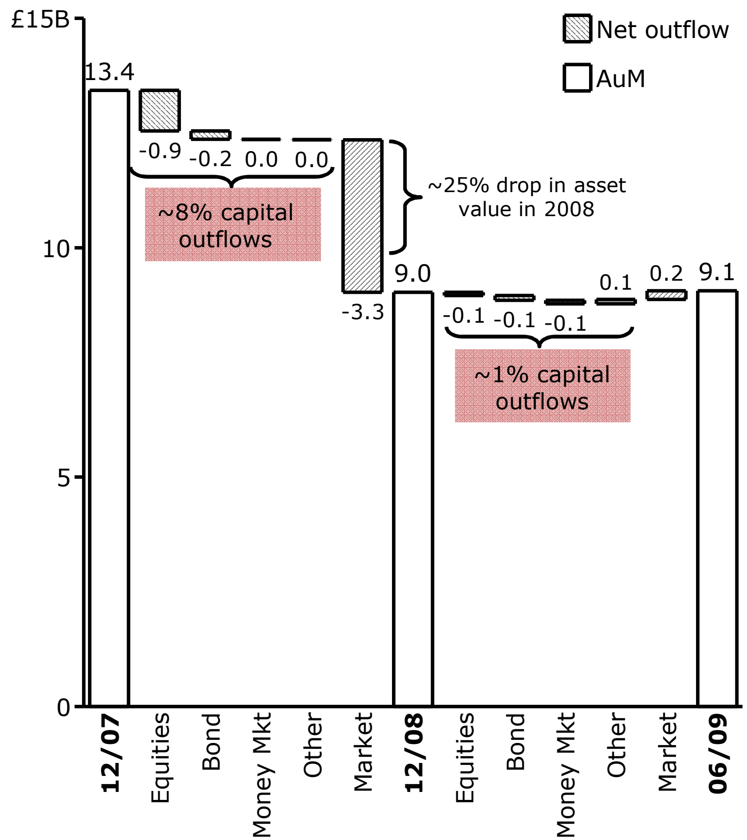
Exhibit 1: Target's Total AUM by Fund Type



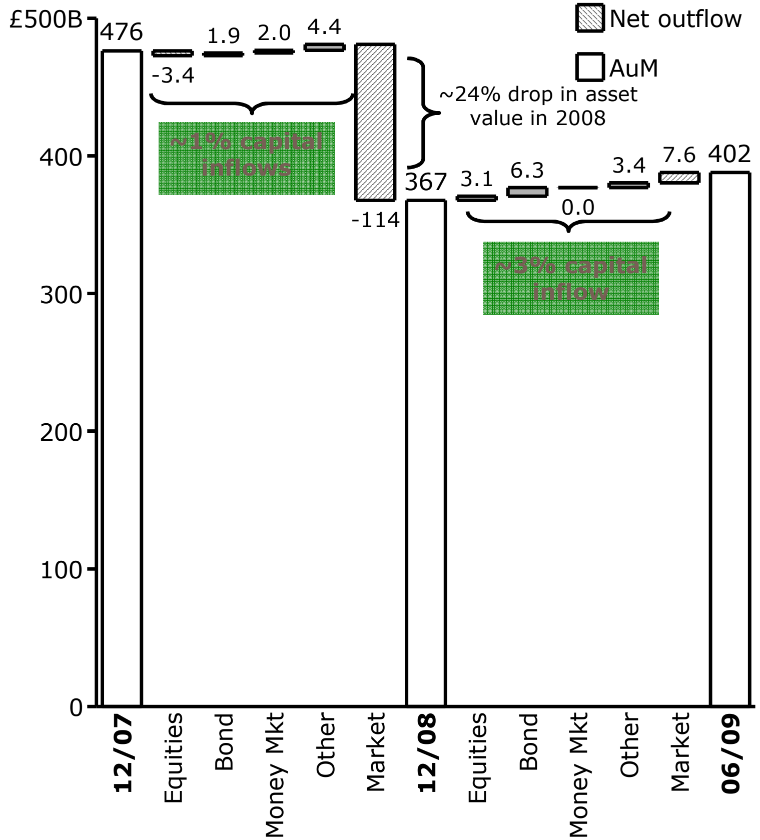
Note: Fiscal year ending December 31 except for 2009 data which is as of June 2009

Exhibit 2: AUM Summary

Target's flow of funds
(Dec '07 - June '09)



UK funds market flow of funds
(Dec '07- June '09)



Note: Excludes alternative investments

Question 1 – Math

Math Question

Given that the target's funds under management are averaging 4.5% returns annually, how many years would it take for the funds to double?

Overall approach, good shortcuts & solution

The candidate would benefit from knowing the "rule of 72" (ie, ~72 divided by the rate of interest will give approximate period of time needed for initial amount to double)

OR

Should realize absolute amount is unimportant (strictly depends on rate)

Solution: 72/4.5= **~16 years**

Information to provide up front

Annual returns of 4.5%

Provide information if asked

If asked, give current funds AUM of £9.1B

Sample Recommendation

Recommendation	Assuming no issues with valuation, recommend against client acquiring the target. The target, on average, has similar financial performance to industry peers but its clients are withdrawing capital faster than the industry average. While the motivation is unclear, there could be uncovered problems with client service and/or client mix.
Risks	Should validate valuation. The valuation of target may be attractive despite being a poor performer compared to the market. The redemption problems, largely driven by one key client in 2008, could be behind them.
Next Steps	Analyze alternative investments as well as German and Spanish markets. Analyze performance of fund managers in order to determine which managers can be replaced (compare performance against benchmarks). See if overall portfolio's relative underweighting in institutional versus retail segments matters.