31 MAY 2023 Jennifer Grybowski

Franklin Templeton to bolster insurance, retirement distro with Putnam acquisition

Partnership with Power Group to give firm access to Empower and Rockefeller

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Franklin Templeton has significantly grown its distribution capabilities along with its retirement and insurance businesses through a deal to acquire Putnam Investments.

The $1.4tn San Mateo, California-based firm will see its defined contribution AuM rise to $90bn and its insurance AuM to $150bn upon closing, increasing the megafirm's overall AuM to $1.6tn with retail assets of $774bn.

The firm's new partnership with the Power Corporation of Canada and Great-West Lifeco includes the Putnam pick-up for $925m. In addition, Great-West will become a long-term Franklin Resources shareholder with a 6.2% stake and provide an initial long-term asset allocation of $25bn to Franklin Templeton's specialist investment managers within a year of closing, an amount expected to grow in the coming years.

For that $25bn, Franklin Templeton execs noted two-thirds would likely be in core or core-plus investment-grade assets and remaining portions into up to three Franklin alternative specialist managers.

Retirement growth has been on Franklin Templeton's radar for some time, with execs noting on the firm's most recent earnings call it wouldn't rule out M&A to help close gaps.

Currently, a third of Putnam's business is in DC while Franklin only has 4% in that channel. Putnam recently retooled its Putnam RetirementReady Funds by incorporating ESG to appeal to younger investors.

Distribution channel mixes, by firm

Source: Franklin Templeton investor documents

CFRA Research equity analyst Cathie Seifert said that the most positive aspect of the deal is the insurance growth, although it doesn't shift the firm or give it exposure to things it doesn't already have.

"This is not a transformative deal to help them produce some top-line growth faster than they would be able to organically," she said.

Where opportunities lie

Through the deal, Franklin will also gain much-needed access to relationships with retirement platform Empower on the insurance side and Rockefeller Capital Management, both owned by Power, on the wealth side.

Outside of Putnam's DC business, Franklin sees opportunities to remedy some challenges Putnam has faced as distributors drop their number of partners, looking to bring the firm onto larger platforms. Franklin also has a significantly larger non-US distribution footprint.

"We have complementary strengths in distribution, so bringing the two product sets together with one distribution platform where the legacy firms have different strengths is better for both organizations," president and CEO Jenny Johnson said in an investor relations call Wednesday morning.

Not included in the deal is Great-West's Boston-based $33bn quant asset manager PanAgora Asset Management.

"The reality is it didn't fit with what Franklin Templeton's interests were and frankly, it fits quite nicely with our interests," Great-West CEO Paul Mahon said.

A spokesperson for Franklin Templeton told With Intelligence that consistent with previous acquisitions, senior management staff retention systems are in place to maximize continuity for now. No decisions regarding headcount or changes in roles or responsibilities within senior management or general staff have yet been made.

Dan Sondhelm, CEO of Sondhelm Partners, noted the merger has opened new sales markets for both firms, and assuming the goals are cost cutting and integration, he thinks the sales and marketing teams will be joined as well, whether the firms operate under separate brands or are brought together.

The firm plans to continue using the Putnam branding, referring to its “strong name” after closing and is committed to retaining Putnam’s presence in Boston. The future of its London, Munich, Singapore, Sydney and Tokyo office locations will be considered in the future.

“You don’t want to stir the pot too much,” Sondhelm said. “If you’re a shareholder of one of the firms, it can be startling for you as a financial advisor to wake up one day and your fund has a new name or your fund actually doesn’t exist, it’s been merged into another fund.”

Great-West noted on its own investor call Wednesday morning it is laser focused on growing wealth, insurance, and retirement businesses.

Execs said the deal would allow them to focus on building out Empower’s retirement and wealth businesses, currently a leader in the US retirement market with 18m plan participants and $1.4tn in AuA.

More M&A inbound

On Wednesday’s call Johnson said Franklin was open to more M&A, particularly in the areas of infrastructure, distribution and local asset management, similar to what execs had mentioned on their earnings call last November.

“I think that Franklin has a tough time growing organically,” Seifert said. “I think investors are going to take a harder look at a company growing through acquisitions versus one that’s able to grow organically."

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