Will Wells Fargo’s Sale of Its Asset Unit Boost Its Image? | ThinkAdvisor

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What You Need to Know

- “Considering the scrutiny the firm has been under, this is overdue,” says recruiter Danny Sarch.
- There's much to debate about the impact of the WFAM sale on the bank, its advisors and its reputation.

Wells Fargo’s recent move to sell off its Asset Management unit for $2.1 billion makes strategic sense for the firm, according to industry analysts and recruiters.

“This is part of Wells Fargo’s overall strategy to boost profitability by focusing on core businesses and by cutting costs,” said executive recruiter Mark Elzweig. The deal follows Wells Fargo’s transaction with Principal Financial Group in 2019 “in which it offloaded” its institutional retirement and trust business, he noted.

The sale of Wells Fargo Asset Management to private equity firms GTCR and Reverence Capital Partners, along with news last week that the Federal Reserve approved the bank’s risk management plan, “move Wells farther down the road to achieving its goals and are morale boosters for the firm,” Elzweig told ThinkAdvisor Tuesday in an interview.

Nonetheless, there’s still plenty of debate about how much of a positive impact the sale of WFAM and related efforts will help the bank, its advisors and its overall reputation.

An ‘Overdue’ Move

The transaction does make sense beyond how it may benefit corporate strategy and morale, according to Danny Sarch, president of the recruiting firm Leitner Sarch Consultants.

First off, “manufacturing your own products and then selling them has been out of favor for years in the wealth management area, because of the perception that it creates a conflict of interest,” he said. “Considering the scrutiny the firm has been under, this is overdue.”

Others, like Tasnady Associates Managing Partner Andy Tasnady, agree: “A lot of the brokerage firms that used to pitch their own proprietary product years ago, with their own special funds," don't do that anymore, he explained.

Portfolio platforms now tend to be "open and you're selling access to the world's best investment ideas, not just your own company's," Tasnady said in an interview, adding that some Wells Fargo rivals moved earlier to sell off their asset management divisions.

Another issue is that "the asset management business itself has become fairly difficult," with a lot of the money moving to exchange-traded funds where there is "tremendous fee compression," he pointed out.

Limited Impact on Advisors

Registered reps with Wells Fargo Advisors are not expected to be affected much by the bank's shedding of WFAM.

"My guess is that any advisors who were using these products will have access" to those products even after the sale, "so the practical effect on the individual advisor is negligible," according to Sarch.

The transaction is expected to close in the second half of 2021, when the new company will be rebranded. As part of the deal, Wells Fargo will own a 9.9% equity interest and will continue to serve as a client and distribution partner.

Shedding WFAM may even help advisors in at least one sense, according to Tasnady. "It actually helps their credibility when they're not seeming to pitch their own proprietary funds," he said.

Clients tend to be "more sophisticated nowadays, with access to all sorts of broader amounts of information so … they would probably eye any Wells Fargo type of fund with a little bit of suspicion" and wonder if it's "being pushed on [them] or [if it's] really the best option," Tasnady explained. "They're better off strategically without it. There's less potential conflicts."

The Price Tag

However, Eric Compton, Morningstar senior equity analyst, said the $2.3 billion valuation of the unit (which is different from the sales price and factors in the 9.9% equity interest Wells Fargo is keeping) was "not great and shows" WFAM "was not the strongest of franchises in the minds of potential buyers."