Berkshire Capital

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Memory lapse?

Imagine that you loaned a friend a few thousand dollars. She seemed like a reliable risk. Had a job with a big organization, a seemingly secure future inside that big group, and a nice piece of property by the sea. Then, one day, a crisis arose and suddenly neither her present situation nor her future opportunities looked too good. "I'm afraid," she told you one day, "I can only pay you 25 or 30 cents on the dollar."

As you continue to play out this scenario, imagine that two years later she had the impertinence to return for more money. Most likely, you would look for the closest exit door as fast as you could, right? Apparently not, if you were an institutional investor and the friend was Greece. In that case, you might just go ahead and loan her money again — only to discover you'd been squeezed out of the opportunity because so many other friends had lined up to do the same.

Thus it was in April, when Greece offered its first bond to private investors since 2010 and investors lined up with €20 billion ($27.6 billion) in orders for a €3 billion, 5-year bond. All that demand helped push the yield down to a reasonable 4.95% considering the state of Greece's economy. To be sure, it helps that Greece has a supportive benefactor in the form of European Central Bank president Mario Draghi, who has provided firm assurances about the integrity of the eurozone. But noting the variety of challenges Greece faces, including an economy that has shrunk by one-quarter since the financial crisis and a 27% unemployment rate, the *Guardian* (U.K.) Economics Blog quipped: "Athens should consider getting away as much debt as it can while the going is good. Or, to put it another way, before the bubble bursts."

Greece wasn't alone among below-investment-grade borrowers in capitalizing on the "new normal" rules, as investors enervated by a continued diet of low interest rates maintained their hunt for yield in all manner of places. U.S. high-yield exchange traded funds and mutual funds drew a net $3.4 billion in the first quarter, double the amount during the same period in 2013, according to Lipper, even as the average spread between the bonds and Treasuries dropped to just 355 basis points. In late April, French cable operator Numericable Group floated a record €7.9 billion ($11 billion) high-yield bond designed to help pay for its acquisition of French telecoms company SFR.

Meanwhile, second-lien U.S. corporate loans, a riskier instrument boasting 9% yields, had drawn $8.5 billion in investment by mid-March, more than double the year-earlier level, according to Standard & Poor's. Yields for catastrophe bonds pitched by insurers sank to around 5%, or 4.5 percentage points below the prevailing level two years ago, but that didn't stop investors from gobbling up a record amount in the first four months. European banks are expected to float €50 billion of "coco" bonds this year — 10 times the level in 2011. Although the bonds carry a risk of coupon cancellation, they have also been serving up an attractive 5.8% interest rate on average. Governments in frontier markets were cashing in, too. For example, Sri Lanka sold a total of $1.5 billion in 5-year eurobond notes in the first half that yielded between 5.1% and 6%, with the second $500 million issue oversubscribed more than eight times.

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Following the sensational returns of 2013, equity markets were choppier for much of the first half, as fidgety investors watched economic indicators and corporate profits with a keen eye. Still, retail investors appeared to be extending the dip in the water that began in earnest last year. **Charles Schwab** registered a 58% increase in profits in the first quarter, lifted by a record average of 550,000 daily trades, while **E*Trade Financial** experienced a 32% jump in daily trades in February from the year-earlier period. Meanwhile, money market funds had net outflows of $56 billion in the first two months of the year, according to the Investment Company Institute.

Amid a robust M&A market worldwide, the asset management industry served up a number of significant deals in the first half, led by **TIAA-CREF**'s $6.25 billion acquisition of **Nuveen Investments** — the largest transaction since BlackRock acquired **Barclays**' asset management business in 2009. **BMO Financial Group** joined TIAA-CREF in the billion-dollar club with a £700 million ($1.2 billion) offer for London's **F&C** that extends its footprint into Europe. A third billion-plus deal — the **London Stock Exchange**'s $2.7 billion purchase of **Russell Investments** — was announced at the end of June. LSE adds Russell's large index business to its own **FTSE** index business while gaining a significant U.S. footprint. The deal was completed with Russell parent **Northwestern Mutual Life Insurance**.

On the heels of its 2013 purchase of an interest in **Santander**'s asset management business, **Warburg Pincus** crossed the Atlantic again to take a majority stake in **Source**, a London-based exchange traded funds provider. In two domestic U.K. deals of note, **Standard Life Investments** paid £390 million for top-15 U.K. asset manager **Ignis Asset Management** while **Rathbones** acquired the private client and charity asset management business of **Jupiter Asset Management** for £43.1 million.

Affiliated Managers Group cut three quick deals to surpass its total for last year, including the purchases of energy investor **EIG Global Energy Partners** and global and Asian equity specialist **Veritas Asset Management**. **Legg Mason** made two deals — acquiring hedge fund **QS Investors** while selling **Legg Mason Investment Counsel & Trust Co.** to **Stifel Financial Corp.** — as it builds a new corporate structure with fewer but larger affiliates. **Federated Investors** stepped into the asset management marketplace for the first time since 2012 to purchase fixed income assets from a subsidiary of **Huntington National Bank**. Private equity firm **Crestview Partners** facilitated a deal between two of its portfolio companies, **Victory Capital Holdings** and **Munder Capital Management**, to create an institutional firm with $37 billion in AUM. In a continuation of its U.S. expansion, **Legal & General Group** crossed the Atlantic to buy target date funds specialist **Global Index Advisors**.

Emerging markets were active, with buyers representing both developed and developing nations. Brazil played host to two deals: **Julius Baer** took majority control of independent wealth manager **GPS Investimentos**; and **Credit Suisse** joined with its noted hedge fund manager Luis Stuhlberger to establish **Verde Asset Management**. Asian players capitalized on the continued retreat by some European firms from asset management in Asia as Singapore's **DBS Bank** paid $220 million to acquire **Societe Generale**'s wealth business in the region and **Nomura Asset Management** bought **ING Groep**'s local asset manager in Taiwan. **Aberdeen Asset Management** enhanced its capabilities in Indonesia by taking an 80% stake in **NISP Asset Management**.

The hedge fund industry drew a number of important buyers, including **Blackstone Group, Cantor Fitzgerald, Deutsche Bank, Man Group** and **Manning & Napier**. Paris-based **La Francaise** made two alternative deals, taking a minority stake in European fund of hedge funds **Tages Capital** and a majority stake in European real estate fund manager **Cushman & Wakefield Investors** (partner **Forum Partners** assumed a one-third interest).

Money Management

In 2007, **Madison Dearborn Partners** cut the largest deal of the year — and the largest-ever asset management deal by a private equity firm — when it acquired **Nuveen Investments** for $5.8 billion plus the assumption of $550 million in debt. In April, MDP sold off that challenging investment for $6.25 billion to **TIAA-CREF** — a price tag that made it the largest deal of the first half of 2014. TIAA-CREF's purchase price includes the assumption of $4.5 billion in Nuveen debt, the majority of which relates to MDP borrowing to fund its 2007 purchase. Pricing, at 2.8% of AUM, was lower than the 3.5% MDP paid seven years earlier.

For Nuveen, which will operate as a subsidiary, the sale to TIAA-CREF marks the third change in ownership it has undergone in a decade, including the 2005 divestiture by majority owner St. Paul Travelers Cos. For TIAA-CREF, the addition of Nuveen's $221 billion in AUM catapults it into the ranks of top-20 global asset managers (combined AUM of nearly $800 billion); adds closed-end and municipal bonds to its product portfolio; and expands its retail footprint and distribution, including internationally. Although Nuveen's AUM has climbed sharply from the recent low of $119 billion in 2008, in the last two years it has endured net outflows totaling $23 billion, according to its most recent 8-K. Since 2011, revenues have ranged between slightly more than $1 billion and $1.1 billion, while net income turned positive in 2013 after two years in the red.

A second deal with a private equity connection saw **Victory Capital Holdings** acquire **Munder Capital Management** in a combination of two Midwest firms with multi-boutique models and institutional clienteles. The two firms each manage more than $18 billion in assets and have an equity orientation. The new firm, in which management and investment managers "will be significant investors," will be based in Cleveland. Financing for the all-cash deal was provided by private equity firms **Crestview Partners** and **Reverence Capital Partners**, which will retain shareholdings in the new firm. A middle market investor, Crestview teamed with management last year on the $246 million buyout of Victory from **KeyCorp** as well as Munder's $302 million buyout from **Comerica** in 2006. "The scale that results from forming the new company will allow our portfolio managers to continue having access to best-in-class resources and support," said Tony Dong, Munder's vice chairman and chief investment officer.

Affiliated Managers Group enhanced its portfolio with three diverse acquisitions in the first four months, quickly surpassing the number of deals it concluded in 2013. This included a majority stake in an alternative investor in the energy sector, **EIG Global Energy Partners** (AUM: $15.9 billion). The deal gives AMG control of a firm that has made more than 300 energy investments worldwide over the past 32 years across a range of areas. Referring to AMG's record for leveraging its scale on behalf of affiliates, EIG called the company the "ideal permanent partner" as "we move into our next phase of growth and development." EIG was spun off from **TCW Group** (now part of **Carlyle Group**) in 2011 and has seen its AUM nearly double since then.

In the second deal, AMG acquired the equity interest of **Aviva Investors North America Holdings** in **River Road Asset Management** (AUM: $11 billion), a value-oriented equity investor focused on low-volatility, income-oriented strategies. River Road is subadvisor for mutual funds offered by another AMG affiliate, **Aston Asset Management**. River Road's AUM has nearly tripled since 2011 while its client list has doubled. In addition, AMG took a majority interest in London's **Veritas Asset Management** (AUM: £10 billion/$17 billion), a manager of long and long-short global and Asian equity funds and segregated portfolios. The firm's largest fund, 9-year-old Veritas Global Equity Income, has £2.7 billion in assets, more than half in Europe, with a tilt toward the energy, health care and industrial sectors.

Conning acquired $6 billion in assets from **Brookfield Investment Management**'s core fixed income insurance business, as it continued to enhance its third-party insurance asset management business via acquisition. A Brookfield spokesperson told Bloomberg the sale was part of an effort to focus on managing real assets such as infrastructure, property and private equity. Connecticut-based Conning, controlled by **Aquiline Capital Partners**, manages $83 billion in assets. **Federated Investors** made its first acquisition since 2012 in buying $421 million in fixed income assets from a subsidiary of **Huntington National Bank**. The funds will be reorganized into five similar Federated funds. As of 2013, Federated had 13% of its AUM, or $50 billion, in fixed income products. In a sign of the times, its best-selling such fund for two years running has been Federated Institutional High Yield Bond, with $6.2 billion in assets. The company's money market funds continue to dominate, accounting for three-quarters of AUM.

Goldman Sachs acquired Colorado's **Westpeak Global Advisors**, a small "smart beta" index fund provider that partners with firms such as **Russell Investments** and **FTSE Group**. Simultaneously, Goldman announced the launch of an "Advanced Beta Strategies" platform that will incorporate Westpeak products, as well as existing Goldman products. The platform will have $30 billion in assets under supervision. In a deal between two Pennsylvania firms, **TriState Capital Holdings** paid about $60 million for **Chartwell Investment Partners**, with the price including an estimated earn-out payment of $15 million. A diversified manager whose AUM has grown from $4.8 billion to $7.5 billion since 2011, Chartwell runs a mix of funds and managed accounts for institutions. TriState, which did a $75 million initial public offering last year, said Chartwell will serve as the foundation for a growing asset management business. The company projects an internal rate of return of about 25% on the Chartwell investment. Prior to the deal, non-interest income accounted for 7% of TriState's income.

Another small bank, Tulsa-based **BOK Financial**, stepped into the market to make its third asset management-related acquisition since 2012, acquiring **MBM Advisors** of Houston, a retirement and pension plan asset manager with clients in 15 states, many of which overlap with a BOK banking presence. MBM, established in 1966, has $1.3 billion in AUM. BOK said the deal "fits with our strategy to acquire companies that have built a differentiated business model and a strong base of clients within our footprint." In late 2013, BOK acquired **GTrust Financial Corp.**, a Kansas trust and asset manager. BOK generates 17% of its revenue from trust fees and brokerage and trading, with trust fees having grown at an annual average rate of close to 12% since 2010.

In a U.S.-based transatlantic deal, London's **Legal & General Group** bought target date funds specialist **Global Index Advisors** (AUM: $20 billion) as part of a bid to expand its U.S. defined contribution business and extend its product line beyond liability investing. The price tag could reach $50.4 million, including a three-year performance incentive capped at around $18 million. L&G, which established an office in Chicago in 2006, had $35 billion in AUM in the U.S. prior to the deal. Global Index Advisors acts as subadvisor for **Wells Fargo** and **State Street Global Advisors** assets linked to Dow Jones Target Date Indexes. Morningstar placed the total U.S. target date market at more than $500 billion as of the first quarter of 2013, about twice the level in 2009. A *Pensions & Investments* survey indicated that such assets in defined contribution plans at the 200 largest U.S. retirement plans had reached $122 billion for the 2013 fiscal year ending last September, a gain of 27% over the prior year.

There were a couple of money manager deals in Taiwan involving divestitures by Europeans. In one, **Nomura Asset Management** acquired **ING Groep**'s local asset manager. NAM, Japan's largest asset manager, partnered with an investment group led by the former head of the ING business in Taiwan. NAM said the transaction extends its footprint into Taiwan and is "part of our ongoing expansion in Asia." ING was a top-10 asset manager in Taiwan, with $7 billion in AUM. NAM is part of **Nomura Holdings**, which in 2012 announced a shift in emphasis to Asia under new CEO Koji Nagai. This followed the challenges that accompanied the investment bank's 2008 purchase of Lehman Brothers' Asian and European operations. (ING, bailed out by the Dutch government in 2008, announced in the first half that it plans to resume dividend payments next year.) In the second deal, government-controlled **Taiwan Cooperative Financial** acquired **BNP Paribas**' 49% equity stake in their 3-year-old asset management joint venture, reportedly for more than $3 million. The two firms will continue their joint venture life insurance business.

Munich Re sold the 19% stake in a Chinese asset management joint venture to its partner, **People's Insurance Company (Group) of China**. The divestiture was in line with a 2006 agreement between the two firms that gave Munich Re the right to sell its stake in part or whole. In 2013, publicly traded PICC created an insurance distribution joint venture with a significant minority shareholder, **American International Group**. **Aberdeen Asset Management** extended its emerging markets capabilities with the acquisition of an 80% stake in Indonesia's **NISP Asset Management**, which manages $300 million in assets for institutions and retail investors. Aberdeen has been investing in Indonesia since the 1980s, including the first dedicated Indonesian equity fund run by an international asset manager. Aberdeen said the deal mixes its "investment expertise" with NISP's "local distribution and product knowledge." Separately, in discussing half-year results through March, Aberdeen CEO Martin Gilbert said the worst of the emerging markets selloff in late 2013 and early 2014 appeared to have passed, noting: "We were really hammered by our standards by money coming out." Ambitious South Korean asset manager **Mirae Asset Global Investments** had been reviewing a deal for NISP last year but ultimately dropped its pursuit.

Wealth Management

The wealthiest slice of the world's millionaires enjoyed a stellar year in 2013. According to a comprehensive survey of private bankers and wealth advisors, three-quarters said their ultra high net worth clients' wealth had increased last year while only 4% said it decreased. The survey, done by London-based real estate consultant Knight Frank, shows the number of ultra high net worth individuals ($30 million or more in investible assets) rose 3% to close in on 168,000, with Europe and North America delivering the largest increases. The group expects its collective wealth of $20 trillion to increase this year, with private bankers and advisors reporting that 63% of their clients are bullish.

Those gains have naturally benefitted the world's wealth managers. One of the beneficiaries, **Julius Baer**, registered an increase in operating income of 26% in 2013, while AUM rose 34%, aided by net inflows and the integration of the former Merrill Lynch international wealth business (acquired in 2012). In a bid to enhance results in emerging markets, the Swiss wealth manager bought an additional 50% interest in Sao Paulo-based **GPS Investimentos** in the first quarter of 2014, bringing its interest to 80%. Julius Baer made its initial investment in 2011. GPS is the largest independent wealth manager in Brazil, with AUM that has nearly doubled over the last three years to $6.6 billion. Julius Baer said the deal provides it with "long-term access to one of the most attractive and promising domestic wealth markets worldwide." Brazil's wealth market is estimated at around $600 billion.

A second cross border deal involving a European player and emerging markets saw **Societe Generale** divest its remaining wealth business in Asia, following the 2013 sale of its private banking operation in Japan. The buyer, **DBS Bank**, paid $220 million for the business centered in Hong Kong and Singapore, or 1.75% of the $12.6 billion in AUM it acquired. The largest bank in Singapore, DBS enjoyed 77% growth in high net worth AUM between 2010 and 2013 to $55 billion. The bank, which counts powerful Singapore state investment firm **Temasek Holdings** as a large minority shareholder, said the deal furthers one of its "strategic priorities to be a leading wealth manager in Asia." SocGen said it will focus on corporate and investment banking in the region.

The transaction is the second in recent years involving the acquisition by a Singapore bank of a European-based wealth manager: In 2009, **Oversea-Chinese Banking Corp.** paid $1.5 billion for **ING Groep**'s Asian private banking business. Singapore has been angling for years to become a center for wealth management in Asia, using another small and business-friendly nation as a model, Switzerland. (In April, OCBC paid nearly $5 billion for Hong Kong-based **Wing Hang Bank** as part of an effort to expand its China-related business.) In the Philippines, **Deutsche Bank** sold its trust business to Manila-based **BDO Unibank**, the nation's largest bank. BDO, controlled by billionaire Henry Sy, added $1.6 billion to the $17 billion it already managed.

In a transatlantic deal, **Andbank**, a private bank based in the principality of Andorra, acquired a Miami-based wealth business, **Swiss Asset Advisors**, which it will wrap into an existing Miami office. The expansion in Miami strengthens Andbank's links with Latin America, a region it considers a "strategic priority." In recent years, fast-growing Andbank (AUM: $17 billion) has extended its footprint into Luxembourg, Mexico and Spain. Swiss Asset Advisors was founded in 2008 by Michael Blank, who established the Florida private banking offices of Julius Baer and **Credit Suisse**.

In the U.S., **Stifel Financial Corp.** acquired **Legg Mason Investment Counsel & Trust Co.**, which manages $9 billion in assets. Stifel will wrap the business into its Global Wealth Management unit, comprising the private client and asset management businesses, as well as **Stifel Bank & Trust**. Global Wealth is Stifel's largest single division, accounting for more than half of the firm's $2 billion in revenues in 2013; it has more than 2,000 advisors in 45 states and $165 billion in client assets. Legg said the deal is part of its effort to "evolve our investment affiliate lineup toward fewer and larger firms that can be better leveraged through our global distribution platform." Separately, **Legg Mason** acquired hedge fund **QS Investors** *(see Alternatives)*, while Stifel acquired California public finance investment bank **De La Rosa & Co.** and **Oriel Securities**, a London stockbroker and investment bank *(see Securities)*.

Banking and payments technology firm **FIS** paid $110 million in cash for **Reliance Financial Corp.** in a bid to expand its trust, wealth management and retirement capabilities. The deal was done through **FIS Wealth Management Services**. Privately held Reliance has $138 billion in assets under management and administration and services around 5% of U.S. 401(k) plans. Retirement assets at the firm have been growing by an average of 17% a year over the past five years. FIS said the deal combines "two industry leaders with deep domain expertise" to create a wealth and retirement platform "encompassing technology, selective operational functions, full back-office operations outsourcing, and retirement trust and fiduciary services."

There were a number of additional and smaller strategic deals. **Telemus Capital** acquired **Concentric Capital**, a Los Angeles-based specialist in the sports and entertainment industries. Telemus is an affiliate of wealth aggregator **Focus Financial Partners**, which acquired a minority stake in 2013. Telemus, based in Michigan and with $2 billion in AUM, partnered with Focus in part to help fund its own acquisitions. Telemus called the Concentric transaction a "game changer," citing the 5-year-old firm's experience in the entertainment business and presence in Los Angeles. Telemus also serves clients in the entertainment industry. Kansas-based **Mariner Wealth Advisors** expanded its Northeast presence by acquiring a majority interest in New Jersey's **Housen Financial Group**, adding more than $800 million in AUM to bring its total AUM to $9.5 billion. Mariner Wealth, part of asset manager **Mariner Holdings**, acquired a similarly sized New York wealth firm in 2013, **RR Advisory Group**.

New York investment bank and broker **Cantor Fitzgerald** made its first acquisition of a wealth manager as it seeks to develop a new wealth division. The target, Pittsburgh's **First Commonwealth Financial Advisors**, has $2 billion in assets and had been part of **First Commonwealth Financial**. Stan Gregor, head of **Cantor Fitzgerald Wealth Partners**, said the new business seeks to structure "a true partnership model in which our advisors are equity owners. We provide our private clients access to the same customized services typically reserved for Cantor's institutional clients." Gregor, who was hired by Cantor last year, had previously been an executive in **Wells Fargo**'s private bank. Cantor also acquired a fund of hedge funds, **Fintan Partners** *(see Alternatives)*.

Alternatives

Since the financial crisis, hedge funds have taken some shots for lagging performance, not to mention the industry's rich fee structure. But **Deutsche Bank**'s comprehensive and 12th annual "Alternative Investor Survey," released in February, had a generally rosy tilt. Of most importance to the industry, investors remain positive about the instruments, with net inflows projected to top $170 billion this year. Among institutional investors, 57% plan to increase their allocations in 2014, on top of nearly half who did so last year. Moreover, while fees have dropped a touch from the common "2 and 20," Deutsche Bank said "investors remain willing to pay for performance," with nearly half the respondents saying they would actually pay more than the traditional fees if results warranted.

In the first half, Deutsche Bank joined several other prominent financial firms in making hedge fund investments. In the U.S., the most notable deal saw **Legg Mason** acquire **QS Investors**, a 15-year-old customized solutions and global quantitative equities provider with $4.1 billion in AUM and another $100 billion in assets under advice. Legg said it plans to wrap its existing quantitative equity and solutions platforms into QS to create a "world-class" provider of alpha products for retail and institutional investors. The restructuring is in line with Legg's strategy to establish fewer but larger affiliates. "The transaction strongly positions Legg Mason within the rapidly growing global client demand for customized solutions, liquid alternatives and smart beta strategies," the company said. Legg, which in 2012 acquired fund of hedge funds manager Fauchier Partners, reportedly could pay as much as $41 million for QS, with most of the payment tied to future revenue targets. New York-based QS was spun out from Deutsche Bank in 2010.

Blackstone Group took a minority interest in **Senator Investment Group**, as it exercised the terms of an equity agreement when it helped seed Senator in 2008. Senator is an events-driven hedge fund with some $7 billion in AUM started by two former employees of another events-driven firm, **York Capital Management**. Just prior to the deal, Blackstone had raised $1.4 billion to buy stakes in hedge funds, halfway toward its $3 billion goal. The targets: firms with AUM of $3 billion to $4 billion, with offers at valuation levels of 4.5 to 5 times cash flow. Blackstone has invested $2.6 billion in seeding hedge funds, while its hedge fund AUM has doubled since 2009 to reach $56 billion.

As part of the bid to expand its asset management division, **Cantor Fitzgerald** acquired a fixed income absolute return fund of funds, **Fintan Partners**, bringing its assets under management and advice to $3 billion. Founded in 2005, Fintan favors smaller specialist managers and emerging strategies. "Because we know all the hedge funds and everyone who manages money, we figured we would be really good at picking which funds would be good to invest in," Cantor chairman and CEO Howard Lutnick told Bloomberg TV in explaining the deal's rationale. "Which ones are best at picking the best products at the moment [in] the market, what's the cheapest thing out there for this kind of risk in bonds." Cantor also acquired wealth manager **First Commonwealth Financial Advisors** *(see Wealth)*.

Manning & Napier expanded into alternatives with the acquisition of **2100 Xenon Group**, a global macro strategies and managed futures specialist with $200 million in AUM. Manning & Napier has $51 billion in AUM, almost entirely in equity and blended products, with more than half of its assets in separately managed accounts. Xenon, founded in 2001 and with a client base that includes institutions and individuals, said the deal "will provide the financial, structural and distribution resources needed to meaningfully grow the assets in our long-tenured futures strategies."

Man Group cut two deals in North America, the first a spinoff to local management of its wholly owned subsidiary, **Man Investments Canada**. Man said the deal will allow it to focus on its institutional business in Canada while Man Investments continues to provide retail investors with access to hedge funds, including those offered by its former parent. In the U.S., Man acquired **Pine Grove Management**, a credit-focused fund of hedge funds with $1 billion in AUM. Man said the acquisition will enhance its **FRM** fund of funds business, including Securities and Exchange Commission-registered 40 Act funds. Pine Grove, founded in 1994, said it was "at the point in our evolution" where a larger parent's resources "will provide significant benefits to existing and future clients." Man was also in talks with Boston quantitative firm **Numeric Investments** about a potential acquisition.

In Europe, Deutsche Bank acquired $85 million in illiquid hedge fund assets from an unnamed Swiss asset manager. Deutsche added the funds to its Aggregator Solutions fund, which was created to invest in such assets, "particularly in situations where market conditions make it difficult for investors to redeem holdings." The fund, launched in 2012 and closed the following year with $1 billion in commitments, has either acquired or had bids accepted on positions with a net asset value of $400 million. "Contrary to market expectations, the liquidity issues in the hedge fund sector have not been resolved," says Magnus Lorrain-Smith, head of hedge fund secondaries at **Deutsche Asset & Wealth Management**.

In Brazil, **Credit Suisse** teamed with Luis Stuhlberger, the chief investment officer of **Credit Suisse Hedging-Griffo**, to establish **Verde Asset Management**. The new firm, expected to commence operations early next year, will manage nearly $14 billion in assets and be controlled by Stuhlberger. At heart, the deal allows Credit Suisse to maintain its relationship with Stuhlberger, who is Brazil's most prominent trader and whose Credit Suisse Hedging-Griffo Verde hedge fund (AUM: $8 billion) has returned more than 8,000% since starting up in 1997. Credit Suisse took control of Sao Paulo-based Hedging-Griffo through a combined $1 billion-plus investment in 2006 and 2011. In addition to hedge funds, Credit Suisse Hedging-Griffo manages equity funds and fund of funds.

La Francaise took a 40% stake in **Tages Capital** and merged its fund of hedge funds operation with Tages' business, creating a combined firm with $3 billion in AUM (two-thirds from Tages). The agreement calls for Tages to assume control of investment management while La Francaise handles distribution in France. The two firms will also work together on other initiatives outside France. La Francaise has more than €40 billion ($56 billion) in total AUM. Tages, which was founded in 2011 and provides customized solutions, said the deal "strengthens our competitive position in Europe." Tages is based in London and Milan. Subsequently, Tages reached a distribution agreement in Germany and Austria with Germany's **Gauly Dittrich van de Weyer Asset Management**. Additionally, the two firms reached an exclusive agreement to launch a multi-asset product outside of Germany and Austria.

La Francaise, together with partner **Forum Partners**, also cut a deal for a European real estate fund manager, **Cushman & Wakefield Investors**. La Francaise will hold a two-thirds and Forum a one-third interest in Cushman, which will operate under the newly established **La Francaise Forum Real Estate Partners** entity. In 2013, La Francaise entered a strategic partnership with London-based Forum that included a 25% equity interest as well as $600 million in capital commitments for Forum strategies. Cushman has $1.2 billion in AUM in separate accounts and in a joint venture fund with Scottish Widows Investment Partnership (now part of **Aberdeen Asset Management**) investing in urban retail properties. La Francaise said the addition of Cushman will provide "an enriched investment offer covering real estate assets" in the three primary European markets of France, Germany and the U.K. LFF Real Estate Partners has $20 billion in AUM, primarily in direct European real estate investments.

In a second real estate deal, Toronto's **Brookfield Asset Management** acquired the Indian real estate advisory business of **AIG Global Real Estate**, which was seeking to exit that market. A person with knowledge of the deal was quoted by India's *Economic Times* as saying, "AIG's real estate platform is a stepping stone for Brookfield. Globally, Brookfield has a huge offshore fund and is looking to allocate money independently from it into Indian real estate." In its 2013 annual report released this year, Brookfield described the fund as having $300 million of "commitments and commercial real estate investments in two major business centres." Property accounts for more than half of the $187 billion in assets managed by Brookfield, while on a regional basis Asia-Pacific accounts for 9% of AUM.

U.K. alternative investor **Marshall Wace** acquired 90% of New York's **Eaglewood Capital Management**, an online and peer-to-peer lending investor. Marshall Wace plans to wrap similar credit assets with Eaglewood to create a new asset manager called **MW Eaglewood** with the goal of making it a "world leader in managing P2P and online lending investment strategies." Subsequently, Marshall Wace said it intends to do an initial public offering for the closed-end P2P Global Investments fund, raising as much as £230 million ($387 million) on the London Stock Exchange. Industry observers say P2P lending is growing by 170% a year in the U.K. and U.S. Founded in 2011 by a former Lehman Brothers trader, Eaglewood counts hedge funds, family offices and foundations among its investors. In 2013, Eaglewood completed what it called the first-ever securitization of P2P consumer loans, with about $53 million in assets originated by **LendingClub**.

Europe

The U.K. was a center of deal-making in the first half, including two major transactions. Coming on the heels of two major transactions in 2013 — **Aberdeen Asset Management**'s acquisition of Scottish Widows Investment Partnership and **Schroders** of **Cazenove Capital** — the various deals underline the continuing consolidation in the U.K.'s asset management industry. The largest was **BMO Financial Group**'s £700 million ($1.2 billion) acquisition of London's **F&C**, part of the Montreal bank's aggressive effort to become a major global asset manager. F&C will double BMO's AUM, adding £82 billion ($136 billion) to the $133 billion BMO already managed. The deal provides BMO with a significant presence in the U.K. (47% of F&C's AUM) and the Netherlands (27%), while F&C's fixed income orientation complements BMO's equity focus. BMO has more than 90% of its AUM in North America. The offer for publicly traded F&C values the firm at 9.4 times EBITDA and less than 1% of AUM.

In discussing the transaction with investors, **BMO Global Asset Management** co-CEO Barry McInerney cited the added scale and expertise of the combined business, including the "ability to offer clients a broader range of solutions" and improved "prospects for winning institutional mandates in faster-growing market segments such as multi-asset class and liability-driven investing." The second major deal was an all-U.K. affair that saw **Standard Life Investments** pay £390 million ($653 million) for **Ignis Asset Management**. Standard Life acquired the top-15 U.K. asset manager from **Phoenix Group**, a British life insurer. Ignis adds £59 billion in AUM to the £184 billion Standard Life already managed, and in particular brings third-party assets and clients to the mix, including the £44 billion managed for Phoenix Group. In 2013, Standard Life's third-party AUM surpassed the assets managed for the insurance business. The company has a particular eye on managing money for other insurers. The deal values Ignis at 7.5 times EBITDA and 0.7% of AUM.

London-based private client and institutional manager **Rathbones** was notable for cutting two domestic deals, paying £43.1 million for the private client and charity asset management business of **Jupiter Asset Management** (private client AUM: £2.1 billion) and £14.3 million for a part of the wealth management business of **Tilney Investment Management** (AUM: £700 million). Simultaneously, Rathbones announced a share placement of more than £24 million that it said provides "the flexibility to continue to respond to similar earnings-enhancing acquisition opportunities." Rathbones had £22 billion in AUM at the end of 2013, 22% higher than the previous year.

Prior to Rathbones' deal for Tilney, European private equity giant **Permira** acquired several of Tilney's regional businesses, including those in Birmingham and Glasgow. Permira plans to merge that business with **Bestinvest**, which it acquired in 2013, to create a "leading standalone" wealth manager with £9 billion in assets under management, advice and administration. The Tilney businesses were part of **Deutsche Bank**, which made the divestitures as it focuses on the high end of the wealth market. In a small domestic deal, 3-year-old **European Wealth** acquired three funds from **Hume Capital**, with a focus on the Hume International Bond fund, which it subsequently revamped and rebranded. European Wealth fixed income manager Nigel Marsh told FTAdviser that the company's private clients had expressed "genuine frustration about the returns being seen on medium- to long-term deposits from banks," leading the company to "structure a fund that could address the concerns" of individual investors and institutions.

There were two notable transatlantic deals involving U.K. exchange traded fund providers, including **Warburg Pincus**' purchase of a majority stake in **Source**. Established in 2009 and based in London, Source has since accumulated $15 billion in AUM in equity, fixed income and commodity products. As part of Source's "open architecture approach," these include products generated by partnerships with such firms as **Man Group** and **Pimco**. Significantly, the deal also places Warburg executive Lee Kranefuss in charge of the business. Kranefuss helped drive the growth of **iShares** during his long tenure as chief executive before leaving after **BlackRock** acquired the business in 2009. Warburg said it will provide the resources Source needs to "further develop and launch new products, enhance existing products, expand client relationships and deliver investor solutions." Kranefuss has stated his ambition to make Source a top-three player in Europe's ETF market. In addition to Warburg, Source counts five major financial institutions as shareholders.

Warburg was joined by New York-based ETF firm **WisdomTree Investments**, which bought a majority stake in London's **Boost**, a short and leveraged ETF specialist with $75 million in AUM (equivalent to $209 million including leverage). Wisdom Tree's AUM rose 91% to $35 billion last year, but assets are heavily weighted toward Japan and emerging markets. Boost adds diversification, with WisdomTree committing $20 million over four years to build out a European platform and "participate in global ETF market growth." The company will wrap Boost into a new **WisdomTree Europe** entity, and plans to launch a range of ETFs in Europe under its brand name, in addition to expanding the Boost lineup of alternative ETFs.

Elsewhere in Europe, **AllianceBernstein** made its second tack-on international acquisition in the last three years in acquiring a majority stake in Denmark's **CPH Capital** (AUM: €2.2 billion/$3 billion), an established institutional manager of global equity portfolios. AllianceBernstein, which acquired a small Taiwan fund manager in 2011, said CPH extends its portfolio by providing a global core equity product. Last year, AllianceBernstein acquired a similarly sized U.S. growth equity specialist, **W.P. Stewart**.

Securities

New York-based investment firm **RCS Capital** cut two deals in the first half, including the $1.2 billion acquisition of privately held broker-dealer **Cetera Financial Group**. Based in California, Cetera provides services to 6,600 independent financial advisors and 600 financial institutions, bringing RCAP's network to some 9,000 advisors and making it the No. 2 independent U.S. broker-dealer. RCAP, which went public last year and is led by noted real estate investor Nicholas Schorsch, cut the deal with **Lightyear Capital**. A financial services-focused private equity investor, Lightyear formed Cetera in 2010 from the purchase of three **ING Groep** broker-dealers via one of its private equity funds.

In a second deal, RCAP acquired **J.P. Turner & Co.**, an Atlanta-based independent retail broker-dealer with 325 affiliated advisors. In an interview with *Investment News* after the Cetera deal, Schorsch said the addition "gives us a great platform with massive synergies and the ability to build a clearing business in the future or the ability to negotiate a better clearing deal. We are a newly minted investment bank with reach from Wall Street to Main Street." The acquisitions come on the heels of two other deals RCAP made for independent brokerages in the fourth quarter of 2013. Last year, the company also acquired a fund of hedge funds, **Hatteras Funds Group**.

Stifel Financial Corp. acquired an established California public finance investment bank, **De La Rosa & Co.**, saying it expects the addition of the boutique firm to "further strengthen" its position in several key underwriting markets in that state. Following the close of the deal, Stifel will rank as the leader in California in such areas as K-12, COP (certificates of participation) and lease revenue bonds, tax increment and economic development. In a second deal, Stifel bought **Oriel Securities**, a London stockbroker and investment bank that provides Stifel with a presence in the U.K.'s mid-cap market. In a busy first half, Stifel also acquired **Legg Mason Investment Counsel & Trust Co.** *(see Wealth)*.

Stifel has an aggressive acquisition strategy that has seen it make more than a dozen deals since 2005. Last year, it closed on the $575 million acquisition of investment bank **KBW**. The De La Rosa acquisition marks the second deal Stifel has made to strengthen its business in California since 2011, when it purchased San Francisco-based municipal bond underwriter **Stone & Youngberg**. In 2013, Stifel's Institutional Group, which includes its brokerage and investment banking operations, reported a 42% increase in net revenues and a similar gain in operating income.

In a transaction between two employee-owned firms, **Robert W. Baird** of Milwaukee acquired **McAdams Wright Ragen** as part of a bid to expand in the Northwest. A broker, advisor and investment bank, Seattle-based McAdams Wright Ragen adds 85 financial advisors and $10 billion in assets to Baird's 725 advisors and $117 billion in assets. Baird referred to the Northwest as "a region that represents tremendous additional potential for our combined firms." In 2013, Baird's revenues rose 11% to top $1 billion for the first time while operating income jumped 17% to a record $117 million.

In China, **UBS** injected $15 million in capital into **Shanghai Pumin Futures Brokerage** in return for a 95% shareholding and a piece of the nation's fast-growing futures markets. In 2013, China experienced an 86% increase in the value of financial futures trades to more than $22 trillion. By next year, UBS is expected to introduce contracts on the CSI 300 Index, a capitalization-weighted index that tracks the performance of 300 A-shares traded on the Shanghai and Shenzhen exchanges. UBS also has a stake in a Chinese securities firm and provides a range of services in the country, from wealth management to investment banking. Several other Western financial firms have Chinese futures operations, including **JPMorgan Chase**. ▲