Berkshire Capital Securities LLC

2015 | INVESTMENT MANAGEMENT INDUSTRY REVIEW

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Founded in 1983, Berkshire Capital is headquartered in New York with partners located in San Francisco, Denver, Philadelphia, London, Frankfurt and Sydney. Our partners have been with the firm an average of 12 years. We are recognized as a leading expert in the wealth management, money management, alternatives, real estate and broker/dealer industries. We believe our success as a firm is determined by the success of our clients and the durability of the partnership we help them to structure.

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Energy renewal

An extraordinary but low-profile event occurred in the U.S. last July when a nondescript tanker set off from the port of Galveston, Texas, for South Korea. The pale-green tanker, domiciled in Singapore, was carrying the first unrestricted overseas sale of unrefined American oil since 1974, when Congress effectively imposed an export ban after the oil crisis of 1973.

With U.S. natural gas in abundance and domestic oil production up 50% in recent years to 9 million barrels a day — and holding the potential to climb as high as 12 million barrels a day in the years ahead — the nation is suddenly awash in energy. The result: producers are beginning to challenge some longstanding rules barring exports, particularly for abundant shale-generated ultralight oil. This wholly unpredictable rebound stands in stunning contrast to the dystopian view of America's energy future that arose in the 1970s following two unsettling oil crises and the rise of the Organization of Petroleum Exporting Countries.

These days, the U.S. is not only on the road to a large measure of energy independence — oil imports dropped by one-third between 2010 and 2013 — but could theoretically become an exporter of some consequence as well. "One is cautious about using the word 'revolution,' but given the scale of the change it is appropriate to describe what is unfolding in the United States in terms of shale gas and tight oil as an 'unconventional revolution in oil and gas,'" prominent energy expert and author Daniel Yergin told the Joint Economic Committee of the U.S. Congress last June.

Going forward, that gusher of domestic energy is expected to be a boon for America's economy, generating millions of jobs, parking a windfall in consumers' pockets, and bolstering the global cost competitiveness of U.S. business. As Yergin explained in his testimony, the total number of jobs (direct and indirect) supported by shale gas and tight oil is expected to rise more than 50% to 3.3 million by 2020 while adding $125 billion in annual revenues to federal and state coffers. All told, cheaper natural gas resulting from fracking alone boosted household disposable income by $1,200 in 2012, and Yergin figures the benefit will reach $2,700 by 2020.

Soon after Yergin gave his testimony, Americans joined by consumers and businesses around the world began benefitting from a global glut of oil that saw the U.S. and global benchmarks drop 50% between June and December to below $60 a barrel. Unfortunately, excess production wasn't the only reason for lower prices: A slowing global economy also meant less demand for the commodity. Indeed, diminished demand for all sorts of goods and services continued to plague both advanced and emerging economies. The euro zone's third-quarter GDP growth was a better-than-expected but still moribund 0.2%; however, with inflation at 0.3% — far below the European Central Bank's (ECB) 2% target — concerns about deflation remained paramount. Japan, the developed world's poster boy for deflation, was mired in it fourth recession since 2008 as third-quarter GDP went negative for the second quarter in a row. The Bank of Japan has embarked on its own version of U.S. stimulative easing in a bid to kickstart economic activity, while the ECB is expected to begin a quantitative easing program early this year.

Export-dependent emerging markets were also feeling the pinch last year. After more than 30 years of breakneck economic growth, China has begun to settle into middle age, with the government describing annual GDP growth in the 7% range as the "new normal." Still, in a sign of Beijing's concern about flagging growth, the People's Bank of China has been quietly injecting money into the banking system and in November cut interest rates. In the developing markets of Southeast Asia, the International Monetary Fund forecasted reasonable growth of 4.7% for 2014 and 5.4% for 2015, while Asia's developed markets are expected to grow only 2%-plus in aggregate in 2014 and 2015. In Brazil, a darling of emerging market investors in recent years, lower global demand for commodities is among several factors crimping economic growth projections to 0.3% in 2014 and 1.4% for 2015. The World Bank projected growth in Latin America as a whole at just 1.3% last year, the lowest level since 2009, while suggesting an uptick to a still-weak 2.2% this year.

U.S. Acceleration

GDP GROWTH

	2014*	2015*
U.S.	2.2%	3.1%
Euro Area	0.8	1.1
Germany	1.3	1.1
UK	3.1	2.7
Japan	0.4	0.8
China	7.3	7.1
India	5.4	6.4
Global	3.3	3.7

** Projected*
Sources: National Association for Business Economics (U.S., Dec. '14); European Commission (Europe, Nov. '14); OECD (all others, Nov. '14)

Even as it continued to grapple with the thorny issues of stagnant wages, a stubborn wealth gap, and what observers have popularly taken to describing as a "dysfunctional" national political system, the U.S. emerged as a beacon of sorts — appearing to be the best house in a rather drab global neighborhood. GDP growth reached a surprisingly strong annualized rate

Shareholder Value-Added

S&P 500 SHARE BUYBACKS & DIVIDEND SPENDING

	Jan. - Sep. 2014 $bn	(Yield)	Jan. - Sep. 2009 $bn	(Yield)
Buybacks	$421	(3.14%*)	$90	(1.48%*)
Dividends	$258	(1.96%*)	$147	(2.24%*)
Operating Profits	$767		$348	
Market Value *	$17,519		$9,337	

** For 3Q of that year*
Source: S&P Dow Jones Indices

of 5% in the third quarter, while analysts are projecting growth this year in the 3% range. The unemployment rate dropped below 6% in September while monthly job numbers averaged 227,000 through the first three quarters for the strongest rate in some 15 years — before climbing to a positively robust 321,000 in November. A 6.5% jobless number had been the Federal Reserve's longstanding trigger for raising rates, but in 2014 the Fed held its near-zero rate policy steady while simultaneously ending its 6-year-old quantitative easing program.

Amid the recovery — and those microscopic interest rates — investors in the U.S. drew courage from solid corporate profits to propel the stock market ahead for the sixth year running. In the third quarter of 2014, S&P 500 earnings rose 10%, with three-quarters of companies beating expectations; profit margins rose to an impressive 10%. With lots of cash on balance sheets and attractive borrowing rates, companies have been aggressive buyers of their shares (which has also helped goose earnings per share). S&P 500 companies bought back $421 billion worth of shares in the first three quarters of 2014, according to FactSet, while dividend payouts were growing at a double-digit rate and were on course to set a new record. All told, analysts figure companies are returning 80% of their earnings to shareholders.

Bond investors in the U.S. were generally faring well, too, while keeping a nervous eye on Fed intentions in 2015. Dowdy municipals had provided investors with returns north of 8% by end of October as the fortunes of state and local governments improved and new issuance declined. Long-dated Treasuries were perhaps the most surprising winner, confounding investors who figured the end of the Fed's bond buying and stronger economic growth would spike yields. Instead, long bonds gained strength and proved to be one of the savviest investments last year, delivering a 13% return in the first six months alone. Meanwhile, U.S. corporate bonds set an issuance record for the third year running, topping $1.5 trillion. One of the biggest stories in the bond market had nothing to do with performance and everything to do with personalities, as bond star Bill Gross abruptly left his post as **Pimco**'s chief investment officer in September to assume command of a small unconstrained bond fund at **Janus Capital Group**. Even as fund companies downplay star manager systems, the incident underlined the impact a marquee name can exercise, as Gross' former Total Return Bond fund suffered $28 billion in outflows in the month after his departure — and $75 billion in the first 10 months of the year, according to Morningstar.

The fortunes of Pimco notwithstanding, the asset management industry put the ghosts of 2008 a little further behind it in 2014 as another year of solid equity returns and more confident investors helped burnish AUM and profits for many firms. Even as its AUM topped $4.5 trillion, **BlackRock** managed to deliver 10% growth in assets in the third quarter year over year, while operating income jumped 20%. The firm's dominant **iShares** exchange traded fund business accounted for nearly two-thirds of net inflows in the quarter. **Affiliated Managers Group**, with its diversified portfolio of asset managers, saw AUM climb 18% to $600 billion between the third quarters of 2013 and 2014 while economic earnings per share (accounting for its affiliate model) rose 26%. **Blackstone**, with a diversified alternatives business, registered an 18% rise in economic net income in the third quarter as AUM rose 15% to $284 billion. In Europe, **Schroders**' AUM rose 8% to £276 billion ($450 billion) in the year through September 2014 while pre-tax earnings jumped 18% from the year-earlier period. In the third quarter, **UBS**' wealth management business recorded its highest quarterly profit since the second quarter of 2009 while AUM rose 14% from the year-earlier period to CHF 1.9 trillion ($2 trillion).

Within the context of a global M&A environment in which deal numbers topped the $3 trillion threshold by November, the asset management industry experienced a robust year in 2014, with 143 transactions valued at $26 billion, including several that topped the $1 billion mark. These were led by **TIAA-CREF**'s $6.25 billion acquisition of bond shop **Nuveen Investments** from private equity firm **Madison Dearborn Partners**. The deal, the largest

Banner Year

MERGERS & ACQUISITIONS WORLDWIDE

Number of announced deals	*2014 (vs. 2013)*
Worldwide	40,462 (+ 6.4%)
U.S.	9,802 (+ 8.1%)
Europe	13,523 (+ 3.1%)
Asia-Pacific (ex-Japan)	10,755 (+ 13.9%)

Value of announced deals ($ billions)	*2014 (vs. 2013)*
Worldwide	$3,485 (+ 47.4%)
U.S.	1,530 (+ 51.4%)
Europe	870 (+ 54.9%)
Asia-Pacific (ex-Japan)	716 (+ 59.4%)

Source: Thomson Reuters

in the industry since BlackRock's 2009 acquisition of Barclays Global Investors, marked a sharp departure in strategy for TIAA-CREF, whose previous acquisitions have been tack-ons. The combination with Nuveen places TIAA-CREF among the global giants with some $800 billion in AUM.

Investment Management Transactions

	2010	2011	2012	2013	2014
Majority Equity	115	119	127	129	**126**
Minority Equity	15	15	29	20	**14**
Management Buyout	13	10	13	10	**3**
Total	**143**	**144**	**169**	**159**	**143**
Total Transaction Value ($B)	$21.2	$10.3	$12.6	$14.8	26.4
Total AUM Changing Hands ($B)	$1,134	$756	$1,133	$1,636	**$1,980**

Source: Berkshire Capital Securities LLC

The second largest was a play on the growth of passive investing, as the **London Stock Exchange** paid $2.7 billion for index provider **Russell Investments**. LSE, which already had a chunk of the index market through its ownership of FTSE International, became No. 2 among U.S.-listed exchange traded funds and No. 3 globally, with $339 billion in ETF AUM. Another transatlantic megadeal saw Montreal's **BMO Financial Group** pay £700 million ($1.2 billion) for London's F&C. Although BMO has been acquiring non-Canadian asset managers for several years, the **F&C** deal marks a new threshold, doubling the size of its asset management business and extending its footprint into the U.K. and parts of the Continent.

Aggressive Brazilian investment bank **BTG Pactual** accounted for a fourth billion-dollar deal, paying CHF 1.5 billion ($1.7 billion) for Swiss wealth manager **BSI Group** as part of a bid to build a global private banking franchise. The seller, Italian insurer **Generali**, follows in a long line of European financial firms engaging in post-crisis restructuring — a trend that has been remaking the asset management industry worldwide. In a second such deal, Singapore's **DBS Bank** paid $220 million for **Societe Generale**'s Asian wealth business centered in the key markets of Hong Kong and Singapore.

Asian-based firms factored in several deals of note last year as both buyers and sellers. Taiwan's **Cathay Financial Holding** built off an existing relationship with U.S. insurance asset manager **Conning** to buy the firm for $240 million from private equity owner **Aquiline**. Australia's **AMP** paid $208 million for a minority share in China's largest pension firm, **China Life Pension**, in the process becoming the first foreign firm to enter that country's 401(k)-like enterprise annuity market. **Aberdeen Asset Management** took a majority stake in **NISP Asset Management** of Indonesia, where Aberdeen has run a fund for international investors since the 1980s. London's **St. James Place** bought Hong Kong's **The Henley Group**, which serves British expatriates in multiple Asian markets.

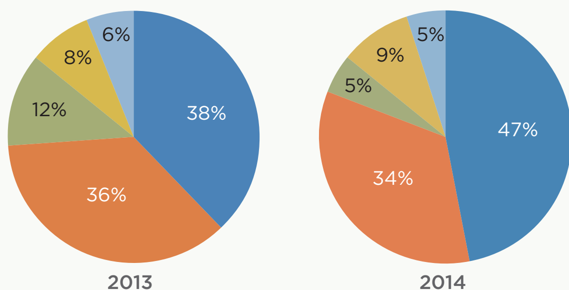
The ETF marketplace hosted numerous transactions of note, in addition to the megadeal between London Stock Exchange and Russell Investments. **Warburg Pincus**' purchase of a majority stake in London's **Source** drew attention because of the Warburg executive who took over as head of the acquired firm: Lee Kranefuss, who joined Warburg in 2012 to lead its charge into ETFs, was the longtime chief of iShares before the acquisition by BlackRock. In a second deal, independent ETF provider **WisdomTree Investments** took a majority share in **Boost**, a short and leveraged specialist based in London. The deal gives WisdomTree a base for expansion in Europe. Within the U.S., Janus Capital Group entered the ETF market via the acquisition of **VS Holdings**, the parent company for **VelocityShares**, while **New York Life** acquired alternative ETF provider **IndexIQ**. **Goldman Sachs** sought to capitalize on a dynamic new part of the passive space by acquiring smart beta specialist **Westpeak Global Advisors**. Additionally, Goldman acquired stakes in three hedge funds via its newly launched Petershill II fund.

The usual lineup of active acquirers made their presence felt last year. These included Affiliated Managers Group, which cut three diverse deals, including for private equity energy investor **EIG Global Energy Partners**. Wealth aggregator **Focus Financial Partners** cut several deals through affiliates, among them an all-Boston transaction in which **The Colony Group** bought a small shop, **Long Wharf Investors**. **Mariner Wealth Advisors** of Kansas took a majority share in New Jersey's **Housen Financial Group** for its third acquisition in the New York metropolitan area since 2012. In the alternatives space, hedge fund manager **Man Group** extended its U.S. footprint with four acquisitions, including quantitative equity manager **Numeric Holdings** and credit specialist **Silvermine Capital Management**. Man Group was joined by private equity giants Blackstone and **KKR & Co.**, both of which made hedge fund investments.

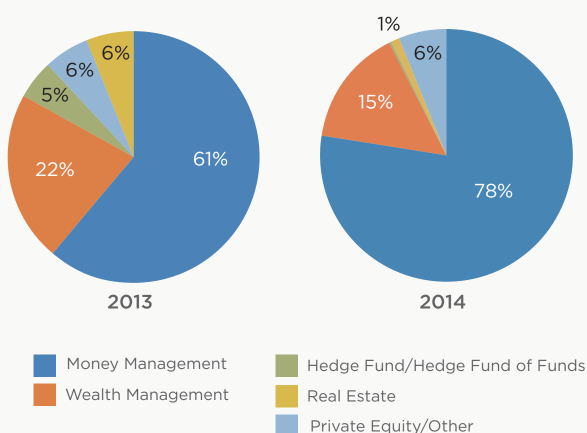
In addition to the marquee BMO-F&C deal, the U.K. played host to several other significant transactions. These were led by **Old Mutual**'s £585 million ($940 million) purchase of **Quilter Cheviot** from European private equity firm **Bridgepoint**. Quilter is the fifth-largest wealth manager in the U.K. by discretionary AUM. Additional domestic wealth deals saw **Rathbones** make two acquisitions to enhance its standing as the second-largest U.K. wealth manager by discretionary assets, marking seven domestic transactions the firm has made since 2012 in the U.K.'s consolidating wealth industry. **Standard Life Investments** paid £390 million

Who's Selling

NUMBER OF TRANSACTIONS BY SECTOR AS % OF TOTAL



VALUE OF TRANSACTIONS BY SECTOR AS % OF TOTAL



Money Management
Wealth Management
Hedge Fund/Hedge Fund of Funds
Real Estate
Private Equity/Other

Source: Berkshire Capital Securities LLC

($653 million) for **Ignis Asset Management**, a deal that strengthens the insurer's third-party client base and enhances its liability-driven investment and government bond capabilities.

With the exception of TIAA-CREF-Nuveen, U.S. deals were relatively modest. **Stifel Financial Corp.**'s acquired **Legg Mason Investment Counsel & Trust Co.** to enhance its wealth business, while **Boston Private Financial Holdings** made its first wealth acquisition in seven years when it acquired a fast-growing Florida-based wealth manager, **Banyan Partners**. **Federated Investors** cut its first deal since 2012 by acquiring fixed income assets from **Huntington National Bank** of Ohio. **BNY Mellon** strengthened its fixed income portfolio with the purchase of New York's **Cutwater Asset Management**.

* * *

To those of us old enough to remember the jarring experience of waiting on blocks-long lines in the 1970s for what had traditionally been the routine act of filling up an automobile, the American energy renaissance of the last five years is nothing short of remarkable. Building off the symbol of that lonely oil tanker heading off to South Korea, we begin this year's Summary by citing the benefits of what energy analyst Daniel Yergin has called an "unconventional revolution in oil and gas." That revolution underlines some of the advantages the U.S. has over other advanced economies as it seeks to free itself from the tentacles of the financial crisis: natural resources; an entrepreneurial and dynamic economy; and an enormous domestic market. An encouraging demographic outlook compared with other advanced economies doesn't hurt either.

The willingness of the Fed to employ aggressive and untested stimulus policies while other developed nations hesitated appears to have helped prod the U.S. economy forward, too, though to what degree is a matter of debate among economists and policymakers. As the Fed ended the long-running quantitative easing program that has seen its balance sheet balloon to $4.5 trillion in assets, investors were on tender hooks attempting to divine the Fed's rate intentions in 2015. *The Wall Street Journal* reported early last December that the top 10 U.S. bond funds by assets were hoarding cash on concerns in the new year about both volatility and their ability to sell holdings in what they fear has become a less liquid post-crisis bond market. But by mid-December, the Fed had revealed its hand, indicating again its inclination to raise rates while allowing that the pace would be measured.

Among investors, there's little debate that the Fed's longstanding low interest rate policy has created significant distortions, prodding them into equities, alternatives and riskier fixed income instruments. Pension fund managers seeking to match assets and liabilities for the looming crush of boomer retirements have been under particular stress, although the rebound in stock prices has helped many boost funding ratios. For the largest 100 corporate plans tracked by consultant Milliman the ratio had climbed to 85% by October 2014 from below 80% in 2008. Although the health of individual public pension funds varies widely, as a whole these taxpayer-backed plans are funded at a 72% ratio, according to the Center for Retirement Research at Boston College. Moreover, the number has been on a downward slope since 2007, when it stood at 87%. The largest proportion of public plans (47%) had an uninspired funding ratio between 60% and 79% while one third were between 80% and 100%.

As institutions in the U.S. and internationally weigh their asset allocation strategies, the need to simultaneously deliver returns and manage risk is pushing them toward alternatives. A **State Street** survey released last November indicates that more than three-quarters of pension funds worldwide expect to boost their alternative investments over the next three years, with 60% planning to increase exposure to private equity, 45% to real estate and 39% to infrastructure. Additionally, while **Calpers** created headlines last year announcing it was divesting its hedge fund portfolio, only 3% of pension funds said they plan to reduce such allocations, while 29% plan to increase exposure.

Perhaps surprisingly given the beating fund of hedge funds have taken due to concerns about fees and performance, 20% of pension funds said they plan to increase their allocation and another 27% said they intend to invest for the first time; only 3% plan on reducing their fund of funds holdings. State Street reported that the pressure to achieve returns is leading pension funds to assume more risk, but opined that "they are better equipped than ever before to do this" thanks to "improvements in data mining and management and reporting."

On the traditional side of the ledger, active equity managers remain under considerable pressure, and 2014 wasn't doing much to turn the tide as they continued to badly trail their index benchmarks. Investment Company Institute data indicate that actively managed U.S. funds were set to suffer their ninth straight year of net outflows in 2014, with $75 billion having been pulled in the first three quarters.

Who's Buying

	2010	2011	2012	2013	2014
Money Manager	37	34	36	36	**31**
Wealth Manager	19	28	23	13	**21**
Bank	11	15	26	24	**17**
Financial	22	26	24	32	**16**
Insurance Company	5	2	13	9	**16**
Securities Firm	17	9	9	9	**14**
Real Estate Manager	6	4	5	4	**7**
Trust Company	5	3	2	6	**4**
MBO	13	10	13	10	**3**
Other	8	13	18	16	**14**
Total	**143**	**144**	**169**	**159**	**143**

Source: Berkshire Capital Securities LLC

A number of the deals we describe in this year's Review play off the trend toward passive investing, most notably the London Stock Exchange's acquisition of Russell Investments. We point out in our Summary that BlackRock managed to increase assets by 10% in the third quarter — no small feat given its size — but the firm's dominance in ETFs helps explain part of that rise. Another giant with a passive orientation, **Vanguard**, generated astonishing growth in 2014, with an industry-record $185 billion in net inflows in the first 11 months of the year to breach the $3 trillion mark in AUM. By contrast, AUM at active manager **Fidelity Investments** was basically flat during the first three quarters. On the other side of the Atlantic, there's a similar drift, with European pension plans planning to double their use of passive investments to 40% of their allocations by 2020, according to Create Research.

Declining oil prices, the uncertain direction of the global economy, Fed policy on interest rates, and the continuing metamorphosis of an asset management industry adjusting to the demands of institutions and individuals for lower costs, better performance and risk management, and new products should ensure another interesting year ahead in what to date has been a remarkable 21st century. As you, our resilient colleagues in the industry, prepare for those challenges on both the client and investment fronts, we stand at the ready to assist in the growth and development of your businesses.

Money Management

In the sixth year of the fourth-longest bull market in U.S. history, traditional active fund managers continued to take it on the chin. In first three quarters of 2014, passive funds of all types drew a net $240 billion in the U.S., according to Morningstar, more than twice the level of active funds. Those numbers come on top of the $336 billion passive funds added on a net basis in 2013. Active equity managers are feeling the most pain, while passive stock funds have grabbed the majority of new assets.

Not surprisingly, a big winner has been **Vanguard**, which was approaching $3 trillion in assets by last summer — more than double the total in 2010. "US investors are pouring money into Vanguard's funds as if the manager was the only game in town," mused *Financial Times* columnist Pauline Skypala last summer. Indeed, in the first half of 2014, while **Fidelity Investments** was hemorrhaging $3.5 billion from its U.S. funds, Vanguard took in a net $64 billion, according to data compiled for the *Financial Times* by Morningstar. PwC, projecting out to 2020, figures passive products (including exchange traded funds) will double their share of the global asset management market to 22%, with average annual growth in assets between 2012 and 2020 of 15.2%. The consulting firm expects the share of active managers to drop 14 percentage points to 65%.

A headline in a paper written by influential industry observer Charles Ellis for the *Financial Analysts Journal* summed up the prevailing winds: "The Rise and Fall of Performance Investing." A prolific author and longtime sceptic of active managers, Ellis argues that technology, the ubiquity of information and the greater sophistication of fund managers themselves have made it nearly impossible for active managers to outperform. In large part, he says, this is because increasing efficiency ensures that any pricing errors "will be quickly discovered and swiftly arbitraged away into insignificance." A 2014 study by S&P Dow Jones Indices underlined the challenge, showing that three-quarters of U.S. managers across all capitalization and style categories failed to beat their benchmarks over the past five years. For large-cap, mid-cap and small-cap funds, the numbers were all above 86%.

The headline money management deal in 2014 was a traditional affair driven by the generally low-profile **TIAA-CREF**, *which paid $6.25 billion (mostly in assumed debt) to acquire* **Nuveen Investments**

The industry's metamorphosis was evident in several significant cross border deals last year involving index or ETF targets, including the **London Stock Exchange**'s $2.7 billion purchase of **Russell Investments**; **Legal & General Group**'s acquisition of **Global Index Advisors**; **Warburg Pincus**' investment in London's **Source**; and **WisdomTree Investments**' acquisition of London's **Boost** *(see Cross Border)*. **Goldman Sachs**, **Janus Capital Group**, **New York Life** *(see Hedge Funds/Private Equity)* and **Victory Capital** joined the passive mix with domestic acquisitions.

As the industry contends with the rise of indexing and the impact on profitability, it continues to evidence its adaptability through the expansion of entirely new ETF categories such as smart beta that go beyond plain-vanilla indexing. Smart beta purports to manage risk through portfolio structuring that can account for volatility or price-earnings ratios, for example. Importantly for the industry's fortunes, that piece of quant value-added allows the managers to create a more profitable price point between traditional indexing and active management.

Those trends notwithstanding, the headline money management deal in 2014 was a traditional affair driven by the generally low-profile **TIAA-CREF**, which paid $6.25 billion (mostly in assumed debt) to acquire **Nuveen Investments**, largely known for its closed-end bond funds and boutique approach. The combination makes TIAA-CREF a global giant, with close to $800 billion in AUM; doubles its mutual fund portfolio by AUM; and extends its reach outside its core market of nonprofit institutions such as universities. The deal also marks a significant strategic departure for the New York firm, whose acquisition strategy had previously revolved around small deals for niche managers such as agricultural asset manager **Westchester Group** in 2010 and timberland specialist **GreenWood Resources** two years later. Although fixed income, and particularly municipal bonds, are Nuveen's stock and trade, the firm has been extending its portfolio into equity funds, which since 2012 have been overseen by **BlackRock**'s former chief equity strategist, Robert Doll.

For seller **Madison Dearborn Partners**, the deal winds down the only financial services investment in its portfolio, and one that proved thorny: Nuveen's AUM dropped from $170 billion at the time of the $6.3 billion acquisition in 2007 to a low of $119 billion after the financial crisis, before climbing back to $219 billion at the time of the TIAA-CREF deal (aided in part by the 2010 acquisition of FAF Partners from **U.S. Bancorp**). Although analysts generally consider MDP's investment to have been a wash, the private equity firm could make an additional return via performance-related payments over the next three years.

As part of the deal, TIAA-CREF assumed the $4.5 billion in debt Nuveen had taken on to help finance MDP's purchase. The acquisition valued Nuveen at 2.8% of AUM, compared with 3.5% in 2007. For Nuveen, the deal presumably puts an end to a decade of musical chairs ownership that began with the 2005 divestiture by St. Paul Travelers Cos. followed by MDP's purchase. Nuveen will operate as a TIAA-CREF subsidiary and will retain its multi-boutique model.

Affiliated Managers Group was an aggressive buyer last year, adding three acquisitions to bring the total number of affiliates in its portfolio to 30, with all three deals building off relationships AMG had developed over time with the firms' senior partners. Driven by multiple acquisitions and 17 straight quarters of inflows ($120 billion in total) through the second quarter of 2014, AMG's asset have more than doubled to $625 billion since 2010, with net income following a similar trajectory. In describing that track record in the company's second-quarter conference call, President and Chief Operating Officer Nathaniel Dalton attributed the gains to the trend of clients separating "their portfolios into passive beta exposures at one end and active alpha at the other, and for the alpha portions of their portfolios clients worldwide are increasingly attracted to boutiques."

The largest of the deals by AUM involved a fast-growing international equity investor based in London, **Veritas Asset Management**, in which AMG took a majority interest. Founded in 2003, the firm's AUM has grown from £1 billion ($1.7 billion) in 2008 to £10 billion at the time of the deal. Veritas manages six funds equally split between global and Asian products. The portfolio includes two long-short funds as well as a $90 million China fund that employs short strategies. The firm's largest fund, Global Equity Income, has £2.8 billion in AUM and has beaten the MSCI World Index over its 9-year lifespan.

The additional deals took place in the U.S. and involved two other rapidly growing and distinct firms. AMG took a minority stake in **EIG Global Energy Partners**, a Washington, D.C.-based private equity energy specialist that has seen its AUM nearly double to $16 billion since its spinoff from **TCW Group** in 2011 *(see Hedge Funds/Private Equity)*. In the third deal, AMG bought out the majority interest of **Aviva Investors North America Holdings** in **River Road Asset Management**. The Louisville-based value investor, which pursues a low-volatility, income-oriented strategy, has seen its

Money Management Transactions

	2010	2011	2012	2013	2014
Number of Transactions	54	58	67	61	**67**
Combined Value ($B)	$5.1	$5.8	$7.3	$9.0	**20.5**
Total Seller AUM ($B)	$357	$450	$762	$1,061	**$1,430**
Average Deal Size ($M)	$95	$100	$109	$148	**$306**
Average Seller AUM ($B)	$6.6	$7.8	$11.4	$17.4	**$21.3**

Source: Berkshire Capital Securities LLC

AUM nearly triple to $11 billion since 2011. River Road had already been acting as subadvisor for mutual funds offered by **Aston Asset Management**, an AMG affiliate since 2009.

River Road manages seven funds, including the Aston/River Road Dividend All Cap Value Fund (AUM: $1.2 billion), which seeks to deliver "high current income" and, secondarily, long-term capital appreciation. The fund has big positions in major dividend payers such as Intel, Microsoft and Verizon. The sale followed a lengthy strategic review by Aviva Investors, which said that an equity boutique manager does not fit its strategy of offering products "that deliver client outcomes with low volatility." Parent **Aviva** also disposed of its Turkish and South Korean insurance operations last year as part of the drive to simplify its business model.

Another perennial buyer, **Federated Investors**, stepped back into the marketplace after taking a break in 2013, acquiring $421 million in fixed income assets from a subsidiary of **Huntington National Bank** of Ohio. In keeping with past practice, Federated will wrap the assets into its existing funds. The company said it will continue to "evaluate opportunities" for alliances and acquisitions "with banks, insurers and broker dealers in the United States and around the world." Last July, the Securities and Exchange Commission finally set new rules that will impact major money market providers such as Federated, including the adoption of floating net asset values for institutional accounts. The new rules also provide for limits on withdrawals in such accounts during financial crises.

In Federated's second-quarter conference call, CEO, President and Director J. Christopher Donahue said he was "disappointed" by the decision, but noted that the company intended to meet the liquidity needs of its institutional clients and said it will create "privately placed funds" for qualified investors "that will likely mirror existing Federated money market funds." While money market funds account for two-thirds of Federated's AUM ($350 billion), in the second quarter the company's equity assets reached a record $50 billion, up 29% from the year-earlier period.

In a bid to extend its platform of beta products, Goldman Sachs acquired a small smart beta firm, **Westpeak Global Advisors.** Based in Colorado, Westpeak partners with such index providers as Russell Investments and **FTSE Group**, employing a patented portfolio construction program to build products. In 2011, management bought out the company from **Natixis Global Asset Management.** As investors chastened by the financial crisis seek better risk-and-return products, asset managers have built smart beta indexes as one possible solution. Although critics have discounted the products as little more than warmed-over active management, smart beta assets in the U.S. have quadrupled in the last five years to more than $300 billion, according to Morningstar. In making the acquisition, Goldman also announced the introduction of an "Advanced Beta Strategies" platform with $30 billion in AUM that will wrap in Westpeak products. In the company's second-quarter conference call, Goldman Chief Financial Officer and Executive Vice President Harvey Schwartz said clients are increasingly "engaging us as an advisor to gain expertise and enhance their decision-making around asset allocation, portfolio manager selection and risk management."

AMG, Federated and Goldman were joined by another active buyer, Connecticut-based **Conning**, which acquired $6 billion in assets from **Brookfield Investment Management**'s fixed income insurance business. In explaining the sale, Brookfield said the business was outside its focus on real assets. Conning, which was controlled by New York private equity firm **Aquiline Capital Partners**, manages assets for insurers, with its $91 billion in AUM about evenly split between property-casualty and life insurers. Aquiline subsequently sold Conning to Taiwan's **Cathay Financial Holding**, with which Conning had an Asian-focused joint venture *(see Cross Border)*.

BNY Mellon acquired **Cutwater Asset Management**, a New York fixed income manager with a diversified product portfolio and $23 billion in AUM. Cutwater will work closely with, and be administered by, **Insight Investment**, Mellon's London-based boutique. Insight, the No. 2 pension fund manager in the U.K., specializes in liability risk management and fixed income and Cutwater extends those capabilities into the U.S. Mellon said Cutwater "will enhance BNY Mellon's and Insight's U.S. platform and abilities to offer specialized fixed income solutions." Cutwater CEO Clifford Corso called the deal the "logical next step" for his firm.

Janus Capital Group entered the exchange traded products space through the acquisition of **VS Holdings**, the parent company for **VelocityShares.** The transaction drew particular notice for the implications it held for the firm's new star attraction, Bill Gross, as it occurred just three weeks after the legendary bond manager abruptly left **Pimco** to join Janus. VelocityShares, with $2 billion in AUM, provides a platform for Gross to ultimately run an ETF for

Janus, as he did at Pimco. Janus paid an initial $30 million in cash for the 5-year-old firm, which focuses on creating sophisticated portfolio and trading risk management products for institutions. "This acquisition positions Janus within the rapidly growing rule-based and active ETF universe, enhancing the customized solutions we can provide to our clients," said Janus CEO Richard Weil.

Private equity firm **Crestview Partners** secured a deal between two of its portfolio companies in which **Victory Capital Holdings** acquired **Munder Capital Management**. The two firms are similar in nature, with multi-boutique models, equity strategies, institutional client bases, and Midwest locations. They are also similar in size, with $18 billion in AUM. Munder's portfolio includes **Integrity Asset Management**, an 11-year-old value investor (AUM: $5.2 billion) that Munder acquired

Janus Capital Group entered the exchange traded products space through the acquisition of **VS Holdings**

in 2010. Senior executives and investment managers "will be significant investors" in the new Cleveland-based company. "Victory and Munder are a natural fit culturally and from a business model perspective," said David Brown, chairman and CEO of Victory. "Both organizations value the same approach, with autonomous, chief investment officer-led investment teams that manage client assets in their own unique styles."

To finance the deal, Crestview teamed with **Reverence Capital Partners**, a startup middle-market investor in financial services founded by veterans of Goldman Sachs and **General Atlantic**. Both Crestview and Reverence join management in becoming shareholders in the enlarged firm. Crestview had placed Munder on the sale block in 2013, but pulled the offering when bids for the firm were too low. That same year, Crestview joined Victory Capital management to buy out the company from **KeyCorp**. In a second deal last year that occurred more than a half-year after the merger, Victory Capital acquired **Compass Efficient Model Portfolios**, a smart beta investor with some $1 billion in AUM. Tennessee-based Compass manages 16 funds and five ETFs tracking proprietary indexes. Victory called the acquisition "an extension of the firm's multi-boutique business model."

In the quest to diversify earnings, smaller banks continue to build out their asset management capabilities via acquisition, with the largest such transaction last year involving **TriState Capital Holdings** paying about $60 million for **Chartwell Investment Partners**. The deal, which includes an estimated earn-out payment of $15 million, brings together two Pennsylvania firms and expands TriState's non-interest income from 7% of total income to 35%. Founded in 1997, Chartwell has $8 billion in AUM (2011: $4.8 billion) in equities and fixed income investments, primarily for institutions. Pittsburgh-based TriState did a $75 million initial public offering in 2013, using most of the proceeds for the Chartwell acquisition. The company provides a range of banking services to middle-market companies, institutions and high net worth individuals. TriState said Chartwell will provide the foundation for the growth of its asset management business while Chartwell said it will assist TriState in expanding "its product offerings with its financial intermediary, corporate and other institutional clients."

A second such deal saw Tulsa-based **BOK Financial Corp.** make its third asset management acquisition since 2012, as part of an expansion of non-interest revenues. Indeed, between the first and second quarters of 2014, BOK's fees and commissions revenue — including brokerage and trading, mortgage banking, fiduciary and asset management, and transaction cards — rose 17%. The target, **MBM Advisors**, has $1.3 billion in AUM and is based in Houston, where BOK subsidiary **Bank of Texas** also has an office. BOK said it is "highly motivated" to expand its asset management business within its footprint, which stretches across seven states, primarily in the Southwest. MBM's main business involves managing retirement plans, which BOK called particularly important for aging baby boomers.

In Canada, the most notable domestic transaction involved **Bank of Nova Scotia**'s divestiture of most of its 37% stake in mutual fund giant **CI Financial** via a secondary share offering totaling C$2.6 billion ($2.4 billion). Scotiabank purchased the shares from **Sun Life Financial** in 2008 for C$2.3 billion, at the time saying the deal provided it with "a significant stake in one of Canada's wealth management market leaders." The sale was reportedly driven in part by regulatory reforms that force banks to hold more capital on their balance sheets to compensate for minority shareholdings in other financial firms. For the record, Scotiabank said it was seeking to monetize its investment. Scotiabank, which has C$165 billion in AUM in its Global Wealth and Insurance unit, will retain a distribution relationship with CI Financial, Canada's second-largest asset manager. Last July, CI Financial's AUM reached C$100 billion for the first time, driven by a 22% increase in assets in the year through June 2014.

Montreal's **Fiera Capital Corp.** continued its aggressive expansion-by-acquisition strategy with the C$12 million purchase of **Propel Capital Corp.**, a 4-year-old Toronto-based closed-end fund shop. Propel said the deal will allow it to create "new, innovative investment products." Propel (AUM: C$400 million) does not manage any of the eight funds in its portfolio, preferring to focus on creating the funds, manager selection and distribution. For Fiera, which already managed some of the funds, the deal adds products and extends distribution into the closed-end fund segment. Fiera's AUM has nearly tripled since to 2011 to C$82 billion, in part through numerous acquisitions, the largest of which involved

the purchase of **National Bank of Canada**'s asset management business in 2012. The publicly traded firm aims to reach C$150 billion in AUM by 2019.

There were a couple of notable domestic money management transactions in the U.K., including one of the largest asset management deals of 2014, **Standard Life Investments**' £390 million ($653 million) acquisition of **Ignis Asset Management**. The deal, which added £59 billion in AUM to the £184 billion SLI already managed, valued Ignis at 7.5 times earnings before interest, taxes, depreciation and amortization (EBITDA) and 0.7% of AUM. SLI said the acquisition complements its "strong organic growth and strengthen(s) its strategic positioning." In particular, Ignis broadens SLI's third-party client base and enhances its liability-driven investment and government bond capabilities, with the Ignis Absolute Return Government Bond fund notable for its rapid growth of late. As of 2013, SLI was managing more money for third parties than its own insurance business, but the addition of Ignis boosts that number to nearly two-thirds, primarily based in the U.K.

The transaction also incorporates a "strategic alliance" with Ignis' former parent, British life insurer **Phoenix Group**, involving asset management services for Phoenix subsidiaries. Meanwhile, parent **Standard Life** sold its Canadian business, comprising insurance and asset management, to **Manulife Financial Corp.** for C$4 billion ($3.7 billion). The company said the sale is in line with its effort to "build a global investment solutions business" while reducing its "exposure to spread/risk income and advancing Standard Life Investments' global distribution and growth prospects through wider collaboration with Manulife."

A second deal saw **Northill Capital** purchase 55% of London- and Guernsey-based **Longview Partners**, an institutional firm with $19.5 billion in AUM. The deal, the largest in the 4-year-old firm's history, brings to five the number of asset managers in its portfolio (total AUM: $30 billion). In concluding the transaction, Longview CEO and co-founder Keith McDermott cashed out his shareholding and retired from the firm. Founded in 2001, Longview is a global equities specialist that runs two concentrated strategies employing a bottom-up approach, the largest of which is Global Equity. Northill Capital praised Longview for its "outstanding performance track record and a focused, disciplined, repeatable investment process." London-based Northill was founded by the former vice chairman of **BNY Mellon Asset Management**, Jon Little, with backing from the billionaire Bertarelli family of Switzerland. In an interview with *Pensions & Investments*, Little said the company is now on the lookout for uncorrelated asset managers in areas such as infrastructure.

In a major U.K. insurance deal with an asset management component, Aviva acquired **Friends Life Group** for £5.6 billion ($8.8 billion). Friends adds £68 billion in AUM to the £241 billion Aviva already managed. "This transaction provides serious scale to our asset management business with little cost," said Mark Wilson, Group CEO. Wilson noted that Friends' asset management business should add £40 million to **Aviva Investors**' earnings, saying, "Strategically, it's a significant step towards our ambition of making asset management earnings a more meaningful part of the group."

Wealth Management

The wealth management industry continued its comeback from the destabilizing events of 2008, while clients who began to question the value of their advisors in the aftermath of the financial crisis continued to enjoy a recovery in asset valuations— and faith. The top-25 firms worldwide registered more than 11% growth in AUM in 2013, according to the latest Global Private Banking Benchmark survey from London researcher Scorpio Partnership. Market leader **UBS** delivered 15.4% growth to close in on nearly $2 trillion in AUM, with the momentum continuing into the first half of 2014, as assets grew another 4.7% from year-end 2013 to pass that mark.

Scorpio's survey of a larger universe of 209 private banks showed even stronger AUM growth of nearly 20%, or double the level in 2012, to nearly $15 trillion. While the solid performance of financial markets in 2013 drove much of those gains, inflows averaged $1.8 billion per bank. The positive numbers carried over to the bottom line, with income at the banks rising 11% on average. But expenses are rising, too, reflecting higher costs for compliance and headcount. As in other parts of the asset management industry, concentration is the order of the day, with the top 25 accounting for nearly 80% of assets within the Scorpio universe of private banks.

In its latest global wealth report, Boston Consulting Group arrives at similar conclusions regarding the industry's growth, based on a survey of 130 wealth managers, private banks and banking groups worldwide. BCG reports an 11% increase in AUM in 2013, of which 4 percentage points represents net new assets, with Asia-Pacific showing the fastest growth in AUM of 24%, including 10 percentage points of net new assets. Revenue growth worldwide was up 8% with fees rising 10%. BCG's survey shows a decline in cost-to-income ratios of 4 points to 70%, compared with an increase of 3 points to 83% in the Scorpio survey. BCG attributes the single greatest increase in costs (32%) to legal, compliance and risk management. KPMG data show pre-tax operating margins at full-service U.S. wealth managers climbing more than 5 percentage points between 2011 and the first quarter of 2014 to 23.6%.

While BCG warned that wealth managers "need to strengthen their asset-gathering capabilities" to capture new wealth, as opposed to "just riding the asset-appreciation wave or attempting to gain market share from other players," the good news for the industry is the continuing uptick in client confidence. In its 2014 Global HNW Insights Survey, Capgemini notes sharp double-digit gains worldwide in the trust high net

> *In the U.S.,* **Stifel Financial Corp.** *was notable in extending its wealth business through the acquisition of* **Legg Mason Investment Counsel & Trust Co.**, *which provides customized investment advisory and trust services to individuals and institutions*

worth investors expressed in their advisors and firms between 2013 and 2014, to 75%. At the same time, the performance ratings of wealth management firms took a hit, dropping 4 percentage points to 63 on a scale of 100, with North Americans providing the highest rating (73) and Japanese the lowest (46). Ultra high net worth investors were notable for the 9 point decline in their assessment to 65. In a similar vein, Scorpio says that although "investors stress that they are not unhappy with their providers," they are less certain about the wisdom of promoting their firms to others: only 50% of the global wealthy say "they would actively refer their wealth manager." As a result, one key to future growth for wealth managers "will be deeper connectivity between the institution and the client in the context of their outcomes," Scorpio concludes in a separate Futurewealth Report 2014.

Amid those pluses and minuses, including the pressures posed by compliance and size, wealth managers worldwide continued to team up last year to ensure their competitiveness, registering 49 deals worldwide. In the U.S., 2014 was marked by a series of generally small but noteworthy transactions, including several by firms pursuing affiliate strategies. This maintained the pattern seen over the past four years, with the U.S. having last registered a major wealth deal in 2010, when **M&T Bank Corp.** bought a distressed **Wilmington Trust**. The Swiss domestic market, consolidating in recent years as firms respond to both competitive and external governmental pressures for transparency, continued to generate significant activity, including **BTG Pactual**'s CHF 1.5 billion ($1.7 billion) acquisition of **BSI Group**.

The largest deal in Asia involved Singapore's **DBS Bank** paying $220 million for what remained of **Societe Generale**'s wealth business in Asia *(see Cross Border for more on the Swiss and DBS deals)*. DBS has also expressed an interest in the international operations of venerable British wealth manager **Coutts**, which **Royal Bank of Scotland** has placed on the sale block. As this report went to press, market participants expected the transaction to draw a large field of high-profile suitors. The U.K. hosted one major domestic deal, as **Old Mutual** paid £585 million ($940 million) for **Quilter Cheviot**.

In the U.S., **Stifel Financial Corp.** was notable in extending its wealth business through the acquisition of **Legg Mason Investment Counsel & Trust Co.**, which provides customized investment advisory and trust services to individuals and institutions. LMIC, with offices in four cities, has $9 billion in assets, including a socially responsible investing business with more than $1.1 billion in assets and a 35-year track record for managing such portfolios. Stifel will fold LMIC into its Global Wealth Management unit, which includes the firm's retail brokerage business. Revenues in Global Wealth have approximately doubled since 2009, topping $1.1 billion in 2013 and reaching $604 million in the first half of 2014. The divestiture by **Legg Mason** is in line with the firm's effort to restructure its business around a core group of distinct affiliates, including **Martin Currie** and **QS Investors**, both of which were acquired last year *(see Cross Border and Hedge Funds/Private Equity, respectively)*.

One of the larger U.S. deals saw **FIS** pay $110 million in cash for **Reliance Financial Corp.** of Atlanta, one of the nation's largest independent trust companies and a leading provider of customized retirement plan, trust, financial and investment solutions to businesses, financial intermediaries and individuals. Founded in 1975 and privately held, Reliance has more than $138 billion in assets under management and administration, including a fast-growing trust unit that services nearly 5% of 401(k) plans in the U.S. and over 24,000 retirement plan clients. During FIS' second-quarter earnings conference call, Gary Norcross, president and chief operating officer, said the combination of the company's existing wealth-related technology with "Reliance's services capabilities and seasoned leadership team creates an end-to-end outsourced solution" while expanding "the strategic value and services we bring to our client base." Reliance said the combined firm will be "uniquely qualified to capitalize" on the growing demand for full-service business process outsourcing solutions.

Boston Private Financial Holdings made its first wealth acquisition since 2007, paying $65 million in cash and stock for **Banyan Partners**, or about nine times expected baseline EBITDA at closing. An additional earnout payment could reach as much as $20 million. The deal, which doubles BPFH's wealth assets to $9 billion, reverses the divestiture mode the company adopted after the financial crisis forced it to seek capital infusions from Washington's Troubled Asset Relief Program as well as **Carlyle Group**. Banyan is an aggressive Florida-based wealth firm that has established a national footprint via seven acquisitions since its founding in 2006 by Peter Raimondi, who founded and ran **The Colony Group** for 20 years. The company's organic AUM growth has exceeded 15% since 2013, with about half of total AUM based in BPFH's Boston backyard.

Raimondi will become CEO of a new wealth management company within BPFH, with the Banyan name retired.

Raimondi called the link to BPFH the "next phase in our evolution," saying the addition of private banking and trust services will allow Banyan to "deliver the full complement of wealth management services to the high net worth marketplace." For BPFH, the addition of Banyan plays into a strategy of generating more fee-based revenues. In the second quarter of 2014, wealth management fees accounted for 38% of total revenues, with Banyan expected to boost that number by 7 percentage points. In the second-quarter conference call, Clayton Deutsch, president and CEO of BPFH, said the deal delivers leadership, talent and "a scalably expandable business model" while he touted Banyan's asset allocation and alternative platforms "that [are] farther along than our current internal capabilities." He added: "We view this transaction as a game changer for us. We expect the combination ... to create a national wealth management business."

In a deal similar to the one by FIS, wealth management technology and services provider **Evestnet** paid $66 million in cash for **Placemark Holdings**, which develops unified managed account (UMA) programs and other portfolio outsourcing solutions for banks, broker-dealers and advisory firms. Placemark's programs include a patented overlay and tax optimization solution. The deal adds $14 billion in UMA assets to the nearly $11 billion Evestnet already managed, making it the industry's No. 5 UMA provider. Evestnet said it will integrate the various technologies by around 2016. Jud Bergman, chairman and CEO of Evestnet, told analysts during a second-quarter conference call that the deal "strengthens our presence in the full-service regional broker-dealer marketplace." Bergman said he expects Placemark, which he called "modestly profitable today," to generate free cash returns of 25% once the integration process is completed.

Two active buyers were in the market last year, with **Mariner Wealth Advisors** accounting for the largest of the deals when it acquired a majority stake in **Housen Financial Group**, a New Jersey firm with more than $800 million in AUM. The deal enhances Mariner's presence in the Northeast, where it acquired two other firms in 2012 and 2013, and pushes its total AUM to $9.5 billion. Marty Bicknell, CEO and founder of Kansas-based asset manager **Mariner Holdings**, told the *Kansas City Business Journal* that Housen provides Mariner Wealth "with a nice little triangle on the East Coast," noting that all three acquired firms are within an hour of one another in the New York metropolitan area. Additionally, he pointed out that the firms all have similar business models, opening the door to "lots of synergies we can figure out [among] the groups as we move forward."

The second serial acquirer, **Focus Financial Partners**, executed several acquisitions last year, three of which were done through affiliates — a core strategy at the firm. In an all-Boston affair, affiliate The Colony Group bought **Long Wharf Investors**, adding $200 million in assets to the $3.5 billion it already managed, along with a client base of individuals, families, trusts and foundations. Long Wharf, founded in 1995, called Colony a "natural fit" and said the deal achieves its "objectives of joining a larger firm, gaining access to vast resources, and better protecting our clients by accessing a built-in succession solution." Colony, acquired by Focus in 2011, has seen its AUM nearly triple since then, in large part the result of two other acquisitions of Northeast firms it made in 2012 and 2013.

In a second deal, Focus affiliate **Telemus Capital** acquired **Concentric Capital** of Los Angeles, a specialist in the sports and entertainment industries. Focus bought a minority stake in Michigan-based Telemus in 2013.

Wealth Management Transactions

	2010	2011	2012	2013	2014
Number of Transactions	39	56	60	57	**49**
Combined Value ($B)	$9.9	$1.1	$3.6	$3.3	**$4.0**
Total Seller AUM ($B)	$518	$80	$240	$371	**$412**
Average Deal Size ($M)	$254	$19	$60	$58	**$81**
Average Seller AUM ($B)	$13.3	$1.4	$4.0	$6.5	**$8.0**

Source: Berkshire Capital Securities LLC

Telemus, with $2 billion in AUM, called the deal "a real game changer for us" that enhances the firm's existing niche in the entertainment industry while adding a presence in Los Angeles. In 2013, Telemus said it would use the capital from Focus' investment to acquire other investment advisory firms. In a third deal, Focus' St. Louis-based affiliate, **Buckingham Asset Management**, acquired a small California firm, **Wealth Management Group**, marking its seventh acquisition in three years. Buckingham already had three offices in Northern California, but WMG expands its presence into the southern part of the state. Buckingham called the deal "a huge win for everyone involved," saying that WMG "will be able to offer an even deeper level of service to their clients, while we continue to add to our exceptional talent base."

Fiduciary Network bought a minority stake in **Pathstone Family Office**, which was founded by former myCFO executives in 2010 and is based in New Jersey, with additional offices in Atlanta and Florida. The firm has $2 billion in AUM and serves several dozen families, offering lower-cost services than the families could secure in a single-family setup. The deal marks the 17th wealth investment that Dallas-based Fiduciary has made since 2007. In an article in *The Wall Street Journal* last year, Fiduciary founder and CEO Mark Hurley extolled the virtues of fee-only wealth managers, noting the stickiness of such relationships while warning commission-oriented advisors that the revenue streams in their "conflict of interest" models "have absolutely zero value

when selling your business," maintaining that clients feel no obligation to stick around when such practices change hands. "Forget that short-term sugar high from the commissions and start working on really developing stable relationships with your clients," he suggested.

Cantor Fitzgerald cut two deals for Pennsylvania firms last year in an expansion of its fledgling wealth management business. The New York investment bank set up **Cantor Fitzgerald Wealth Partners** in 2013 as part of an effort to counter declining trading commissions and extend beyond its institutional client base, hiring a former **Wells Fargo** private bank executive to run the business and a **Merrill Lynch** executive to take charge of sales. Cantor aims to have a network of up to 350 advisors within three to six years, offering prospective advisors equity incentives. Retail clients have access to the firm's institutional platform of investments, including alternatives.

Cantor's first deal was for **First Commonwealth Financial Advisors**, a Pittsburgh firm with $2 billion in assets that had been part of **First Commonwealth Financial Corp.**, a Pennsylvania bank holding company. Cantor called FCFA "a highly respected and established brand that clients have grown to trust." The second deal involved a small, established Philadelphia-area firm, **Capital Planning Advisory Group**. Capital Planning pointed to the combination of Cantor's brand name and resources as the sale drivers, saying it will allow the firm to "deliver additional services to our clients ... while enhancing the value we currently provide." Cantor also acquired a fund of hedge funds, **Fintan Partners** *(see Hedge Funds/Private Equity)*.

National Financial Partners, a benefits, insurance and wealth management service provider, acquired **Washington Wealth Management** of San Diego. WWM is a registered investment advisor with $800 million in AUM that supports fee and commission-based independent advisor teams with an open-architecture platform integrating service and technology. The firm targets wirehouse veterans seeking to go independent. James Poer, president of **NFP Advisor Services Group**, called WWM a "clear leader in a vibrant space where we see significant opportunities to provide valuable support to advisors who would like to transition to the independent model." In 2013, **Madison Dearborn Partners** paid $1.3 billion for NFP via a controlled affiliate.

Wunderlich Securitites of Memphis acquired the wealth business of Wall Street investment bank **Dominick & Dominick** to create a combined firm with $10 billion in client assets. Wunderlich will merge an existing New York wealth and equity capital markets office with the acquired business, operating under the venerable Dominick name as part of **Wunderlich Wealth Management**. California private equity firm **Altamont Capital Partners** made an investment in Wunderlich in 2013 designed primarily to assist the company's expansion in the wealth market.

The U.K.'s large and fragmented wealth industry remained on the consolidation track last year, beset by the same competitive pressures facing firms in the U.S. and elsewhere in Europe, with compliance costs a particular burden. In addition, the government's 2-year-old Retail Distribution Review is squeezing firms' incomes by mandating upfront fees for advice while eliminating commissions from fund companies. "To be a mom and pop sitting in one room is no longer viable for this business," Charles MacKinnon told Reuters last year. MacKinnon was co-founder and chief investment officer at London's **Thurleigh Investment Managers**, a private client firm with £300 million ($500 million) in AUM that was acquired last April by **Ingenious Asset Management** (AUM: £1.5 billion). Citing the needs of its clients, Thurleigh said the connection to IAM "offers continuity and the advantages of a deeper pool of investment expertise."

Old Mutual accounted for the largest U.K. deal — and one of the largest asset management deals of 2014 — paying £585 million ($940 million) for London's Quilter Cheviot

Old Mutual accounted for the largest U.K. deal — and one of the largest asset management deals of 2014 — paying £585 million ($940 million) for London's Quilter Cheviot, mainly in cash (from the partial initial public offering of **Old Mutual Asset Management** in the U.S. and the sale of European non-core assets). The deal includes £42 million of performance-based equity and was executed through **Old Mutual Wealth**. The fifth-largest wealth manager in the U.K. by discretionary AUM, Quilter Cheviot adds £16.2 billion in AUM to the £76 billion OMW already managed, as well as 38,000 clients.

Julian Roberts, Group CEO of Old Mutual, said Quilter Cheviot "delivers the final substantive part of our investment programme in the U.K. toward building a vertically integrated wealth management business of scale in the U.K." That vertical strategy includes last year's acquisition of **Intrinsic**, the largest network of restricted and independent advisors in the U.K. Quilter Cheviot could provide discretionary service to Intrinsic's clients. In Quilter Cheviot, Old Mutual gains a business that has been generating 16% average annual growth in AUM since 2011 with a 29% operating profit margin that is among the highest in its peer group. Old Mutual said it expects to transaction to meet its 12% to 15% return on equity target and generate annual synergies of £9 million. The seller, European private equity firm **Bridgepoint**, acquired Quilter & Co. in January 2012 from **Morgan Stanley Smith Barney** (reportedly for around £180 million) and later that year reached agreement with Cheviot Asset Management to merge the two businesses.

The second-largest U.K. wealth manager by discretionary assets, **Rathbones**, was especially active on the consolidation front, securing deals for two London firms that enhanced its private client business. In the larger one, Rathbones paid £43.1 million for the private client and charity asset management business of **Jupiter Asset Management**, with £2.1 billion in private client assets. In the second transaction, Rathbones paid £14.3 million for a part of the wealth management business of **Deutsche Bank**-owned **Tilney Investment Management** (AUM: £700 million), a venerable firm that targets mass affluent investors. Rathbones CEO Philip Howell said the acquisitions "demonstrate the merits of Rathbones to both clients and investment management teams, as well as our ability to capitalize on earnings-enhancing acquisition opportunities to grow our business." For its part, parent **Jupiter Fund Management** said the sale was part of its strategy to "simplify our operating model, reduce risk and increase our ability to focus on growing our core mutual fund franchise." Private client funds accounted for just 7% of overall AUM at Jupiter in 2013.

Rathbones has made five other domestic acquisitions of investment teams or small wealth managers since 2012, while AUM has nearly doubled since 2009 to about £24 billion, including the two most recent transactions. In conjunction with the two deals, Rathbones completed a share placement that netted the firm £23.6 million, or a little less than 3% of firm's issued share capital. The company said the funds will provide it with "flexibility" to make additional acquisitions.

In a related divestiture by Deutsche Bank, European private equity firm **Permira** acquired four of Tilney's regional wealth businesses, including two in Scotland and two in England. The businesses, with £3.5 billion in assets under management or advice, were run at a loss by the German bank, which plans to focus on the ultra-high-net-worth end of the market. For Permira, the deal follows on the heels of the 2013 acquisition of London-based wealth manager **Bestinvest** and creates an enlarged firm (rebranded as **Tilney Bestinvest**) with £9 billion in assets and 16 offices in the U.K. At the time of the Bestinvest deal, Permira said that even with consolidation the domestic wealth market "remains very fragmented with a long tail of subscale firms with under £3 billion of client assets," adding that it would help Bestinvest "participate in the ongoing industry consolidation."

An additional domestic deal saw **Thomas Miller Investment** buy **Broadstone**'s wealth business. The Broadstone business adds £400 million in assets and offices from Glasgow to London to the £2.4 billion London-based TMI already managed and is part of a "wider growth strategy to build Thomas Miller Investment into a leading investment management business, both organically and through acquisition." TMI is part of **Thomas Miller Group**, which also provides insurance and related professional services. Broadstone said it will focus on its core business of providing corporate benefits advice to small and medium-sized clients.

Cross Border

Although the global economy was a mixed bag in 2014, cross border dealmakers enjoyed their most active year since 2007: transactions totaled $1.3 trillion, a stunning 78% increase over 2013, and accounted for 37% of the worldwide total, according to Thomson Reuters. In a report on cross border M&A activity released last June, law firm Baker & McKenzie said the two key motivating factors in such deals are access to customers followed by access to intellectual property, whether that involves brands and trademarks or technology and patents. The law firm reports that 86% of the companies it surveyed judged their transactions to be successful while one-third said they plan to make a cross border acquisition over the next two years, underlining the "extent to which cross-border M&A is an intrinsic part of the business strategy of many multinational organizations. Globalization is only likely to augment that trend."

The asset management industry contributed its share to that larger trend last year, accounting for several major deals that overshadowed strictly domestic activity, with the notable exception of **TIAA-CREF**'s $6.25 billion purchase of **Nuveen Investments** in the U.S. *(see Money Management)*. The **London Stock Exchange**'s $2.7 billion deal for **Russell Investments** led the cross border action and follows a similarly impressive 2013 cross border transaction involving **Orix Corp.** of Tokyo paying €1.9 billion ($2.6 billion) for the **Robeco** asset management business of **Rabobank**. Other European firms buying U.S.-based asset managers included **Henderson Global Investors, Legal & General Group** and **Man Group** *(see Hedge Funds/Private Equity for Man)*. These deals, coming on top of other recent and significant transactions featuring U.K. buyers and U.S. targets — **Schroders** buying STW Fixed Income Management and **Aberdeen Asset Management** acquiring Artio Global Investors, for example — underline the effort by larger European fund houses to build a global presence and establish a credible foothold and product expertise in the world's largest asset management market.

For their part, North American financial firms have been establishing and expanding European bases, led last year by **BMO Financial Group**'s £700 million ($1.2 billion) purchase of **F&C**. BMO was joined in Europe by **Affiliated Managers Group, Alliance Bernstein, Legg Mason, Warburg Pincus** and **WisdomTree Investments**. These deals follow on the heels of **New York Life**'s major 2013 purchase of pan-European manager Dexia Asset Management (now **Candriam**). While some organizations such as BMO and New York Life have concluded transactions to secure immediate scale and presence, others are zeroing in on targets that can fill a niche, whether that involves investment expertise, geography or clients. For European boutiques, new regulations and more selective demand and greater scrutiny from institutions are generating pressure to rationalize expenses and/or expand products into new markets — making them increasingly receptive to strategic dialogues with larger fund platforms and in particular U.S. partnerships.

Emerging market players are joining their more established Western peers, often capitalizing on post-financial-crisis restructurings by European financial services firms. Last year, this included **DBS Bank** of Singapore paying $220 million for what remained of **Societe Generale**'s Asian wealth business. In 2009, Singapore's **Oversea-Chinese Banking Corp.** paid $1.5 billion for **ING Groep**'s Asian private banking business.

Cross Border Transactions

U.S. - INTERNATIONAL	2010	2011	2012	2013	2014
Number of Deals	17	21	22	27	**21**
Value ($B)	$3.9	$2.8	$3.0	$3.9	**$5.2**

INTERNATIONAL - INTERNATIONAL	2010	2011	2012	2013	2014
Number of Deals	20	27	26	22	**20**
Value ($B)	$2.0	$2.4	$1.7	$3.9	**$6.4**

TOTAL	2010	2011	2012	2013	2014
Number of Deals	37	48	48	49	**41**
Value ($B)	$5.9	$5.3	$4.7	$7.8	**$11.6**

Source: Berkshire Capital Securities LLC

The major 2014 deal involving an emerging market buyer was another restructuring play, as aggressive **BTG Pactual** of Brazil paid CHF 1.5 billion ($1.7 billion) for Swiss-based wealth manager **BSI Group**, owned by Italian insurer **Generali**. A third unrelated deal of note saw **Cathay Financial Holding** of Taiwan acquire U.S.-based insurance asset manager **Conning**.

The marquee London Stock Exchange-Russell transaction played into the fund industry's most compelling narrative of recent years — passive investing. In a report issued last year, PwC projected that passive investments will double their global share of AUM to 22% ($22.7 trillion) between 2012 and 2020, built on 15.2% annual average growth. LSE's acquisition makes it a formidable player in that space, creating an enlarged passive business that is No. 2 among U.S.-listed exchange traded funds and No. 3 globally, with $339 billion in ETF AUM. Combined, there are more than $9 trillion in assets linked to the two companies' indexes. In 2011, LSE acquired the 50% of FTSE International it did not already own, providing it with sole ownership of the FTSE 100 Index. LSE called the Russell deal "a rare opportunity to acquire a high-quality U.S. business" that "sits squarely with our diversification strategy, builds on one of our core strengths in intellectual property and provides another key driver of growth by growing our presence in the U.S." Several private equity firms had also been mulling a run at Russell.

LSE, which paid for Russell in part with a $1.6 billion rights issue (the remaining $1.1 billion was financed by debt), said the deal will be earnings accretive in the first full year on an aggregate basis while the Russell index business will be accretive on a standalone basis in the second year. In buying Russell from parent **Northwestern Mutual Life Insurance**, LSE also gains an asset management business with $256 billion in AUM (including $75 billion in derivative overlays) and $2.4 trillion in consulting assets. Many analysts view that business as likely to be sold, given the questionable fit with the rest of LSE's operations. LSE simply said it will "undertake a comprehensive review" of the business. On a pro forma basis, LSE will derive 32% of its revenues from North America, compared with 14% prior to the deal, but the number drops to 21% when Russell's non-index operations are excluded.

There were two transatlantic ETF deals of note, both of which involved American buyers of British firms. As in the more mature U.S. market, the European ETF market has been growing rapidly, with AUM climbing 22% in the first 10 months of 2014 vs. year-end 2013, to €351 billion ($440 billion), according to **Lyxor**. The market is also dominated by BlackRock, with **Deutsche Bank** a distant second. Of late, the market has added a third element familiar in the U.S. — price wars — as the two major players battle with **Amundi**, Lyxor, **Vanguard** and others for share. The markets do split on investor type, with institutions accounting for most of the European investor mix, while in the U.S. retail investors make up 45% of the ETF market.

In the larger of the ETF transactions, Warburg Pincus acquired a majority stake in **Source**, a rapidly growing 5-year-old London firm with $15 billion in AUM in a mix of equity, fixed income and commodity products. Several banks that provided Source with its original capital will retain minority shareholdings. What makes the deal of particular interest is the involvement of Warburg executive Lee Kranefuss, who was named executive chairman of Source and has quickly voiced his goal of making the firm one of the top three ETF providers in Europe. Kranefuss was the longtime head of **iShares** until its acquisition by **BlackRock** in 2009. He joined Warburg in December 2012 to spearhead the New York firm's drive into the ETF business.

Started up by former executives from **Goldman Sachs** and **Morgan Stanley**, Source pursues an open architecture model through which it has established partnerships with such firms as Man Group, **Pimco** and Legal & General. Following the Warburg deal, Source announced plans to double its sales team as part of an effort to target the retail market and cut its management fee to just 5 basis points as it joined the existing ETF price war in Europe. Source said Warburg will provide capital to expand the business, including via acquisition.

In the second deal, WisdomTree Investments of New York bought a majority stake in **Boost**, a short and leveraged ETF specialist based in London. For publicly traded WisdomTree, the deal adds just $209 million in AUM (including leverage) but provides portfolio diversification with European and commodities products. WisdomTree's pre-existing portfolio was geared toward Japan and emerging markets — a dependence that weighed on the firm's 2014 results. In the first half of the year, for example, AUM grew less than 2% over end-year 2013 while net inflows were negative. WisdomTree, which created a new **WisdomTree Europe** unit that incorporates Source, said it will invest $20 million over four years to build out a European platform. Separately, the company cemented a strategic partnership with Australian ETF provider **BetaShares**. The two companies will develop products for the Australia-New Zealand markets while BetaShares will market WisdomTree's U.S. ETFs in Australia-New Zealand. WisdomTree's funds were also added to **Charles Schwab**'s expanded Schwab ETF OneSource platform.

As with LSE-Russell, a second billion-dollar money management deal had a North American-British flavor as BMO Financial Group of Montreal paid £700 million ($1.2 billion) for London's F&C. The deal reflects the more aggressive and opportunistic expansion by well-capitalized Canadian banks since the financial crisis, and is in line with BMO's stated goal to become a top-50 global asset manager. In recent years, BMO, has been extending that global footprint via small acquisitions, but the addition of F&C's £82 billion ($136 billion) in AUM doubles the size of the business. The U.K. accounts for about half of F&C's assets, with the Netherlands second at 27%, while BMO's assets prior to the deal were largely based in North America. The portfolios are similarly complementary, with F&C focused on fixed income and BMO on equities.

BMO paid 9.4 times EBITDA and less than 1% of AUM for F&C, which has endured its share of challenges in recent years, including a revolving door of chief executives and investor outflows. The link to BMO promises to extend F&C's distribution capabilities and provide the resources of a large bank. Following the close of the transaction, **BMO Global Asset Management** co-CEO Barry McInerney said having a "truly global investment platform" was important to serving the needs of its clients. "Investors, wherever they are based, are increasingly demanding global products, strategies and solutions. With this acquisition, [BMO] is better able to leverage ideas cross border and bring more comprehensive solutions to our clients around the world."

Legg Mason accounted for another U.S.-U.K. connection, as it acquired international equity specialist **Martin Currie** (AUM: $9.8 billion). Legg said the Scottish firm fills its "largest product gap" with active equity strategies in such areas as global, emerging markets, Asia and Europe. Legg added that its global retail distribution platform will be able to "meaningfully leverage Martin Currie's broad-based investment capabilities." In line with Legg's effort to fashion a business of fewer but larger affiliates, the company wrapped **Legg Mason**

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Australian Equities (AUM: $2.5 billion) into Martin Currie. Martin Currie has endured a significant drop-off in AUM since the financial crisis, although its fortunes have improved in the last couple of years, with AUM climbing 17% in 2013 amid net inflows of £457 million ($754 million). Although the company's primary client base is in Europe, it has significant numbers in North America and Asia-Pacific. The company's investment strategies tilt toward Asia. In an interview with *Pensions & Investments,* Martin Currie CEO Willie Watt indicated that the company had been focusing on organic growth, but ultimately saw a larger parent as a surer route to success. "With Legg Mason's distribution, [Martin Currie] can be the firm that we think it should be," he said.

There were two British-American deals of note heading the other way, the largest being Henderson Global Investors' acquisition of Milwaukee's **Geneva Capital Management**, an established small- and mid-cap manager that has seen its AUM climb more than threefold since 2010 to $6.3 billion. Henderson paid an initial consideration of $130 million (7.2 times earnings before interest and taxes), while deferred revenue considerations and growth-related earnout payments could add another $70 million. Henderson called the deal an "important strategic milestone" in the development of its North American business, noting that Geneva will add U.S. equity capabilities and institutional clients. Henderson's AUM in the U.S. has doubled since 2012 to $12 billion (total AUM: £73 billion/$120 billion), but institutional assets account for just 17%. The addition of Geneva will hike that U.S. number to 42%. Henderson said it will also be adding to its U.S. institutional sales force. In 2013, Henderson formed a real estate advisory joint venture with TIAA-CREF that provided a connection to a deep-pocketed U.S. partner for seeding investments.

London's Legal & General Group sought to capitalize on a growing area in the U.S. retirement space and extend its U.S. presence by acquiring **Global Index Advisors**, a target date funds (TDFs) specialist with $20 billion in AUM. TDFs are one of the most popular options in defined contribution (DC) plans, with assets having jumped 24% in 2013 to $624 billion, according to BrightScope, although the researcher thinks the number could be closer to $900 billion when collective investment trusts and pooled separate accounts are included. **Vanguard**, one of the largest such providers,

reports that 86% of its plan sponsors have adopted TDFs, which accounted for 34% of DC plan contributions in 2013. To gain a slice of that market, L&G, the largest manager of U.K. pension funds, could pay up to $50.4 million for Global, including a three-year performance incentive capped at around $18 million. The addition of Global gives L&G more than $50 billion in AUM in the U.S., where it established a presence in 2006. Global Index Advisors acts as subadvisor for **Wells Fargo** and **State Street Global Advisors** assets linked to Dow Jones Target Date Indexes.

There were a number of notable cross border deals in the wealth sector, primarily in Switzerland's consolidating industry and in Asia. The lone transatlantic-deal of note saw private bank **Andbank** acquire Miami-based wealth manager **Swiss Asset Advisors**. Based in the principality of Andorra (located between Spain and France), Andbank has $17 billion in AUM and a significant presence in Latin America, in addition to operations in a handful of European markets and Miami. Swiss Asset adds $300 million in assets to that Miami operation. Swiss Asset founder Michael Blank told Funds Society he was drawn to Andbank by its open architecture model and legacy dating to 1930. "Miami is a unique melting pot of cultures for families and their interests, and Andbank is focused on positioning itself as a reference," he said. Andbank has boosted its business in Latin America since 2008 from 5% to one-third of the total, while CEO Jordi Comas has stated a goal of becoming a top-five private bank in the region within a decade.

Cross Border Transactions by Domicile and Type

2014 BUYER: / SELLER:	U.S. / INT'L	INT'L / U.S.	INT'L / INT'L	TOTAL
Wealth Management	1	4	9	**14**
Money Management	9	5	7	**21**
Other	6	2	6	**14**
Total	**16**	**11**	**22**	**49**

2013 BUYER: / SELLER:	U.S. / INT'L	INT'L / U.S.	INT'L / INT'L	TOTAL
Wealth Management	0	2	3	**5**
Money Management	4	8	10	**22**
Other	3	4	7	**14**
Total	**7**	**14**	**20**	**41**

Source: Berkshire Capital Securities LLC

In Europe, Switzerland was the most active market for cross border wealth deals, as the pressures of transparency, scale, and post-financial-crisis capital raisings and restructurings drove sales, led by BTG Pactual's acquisition of BSI. The seller Generali, which has been disposing of billions of euros in non-core assets to strengthen its balance sheet, noted that proceeds from the CHF 1.5 billion ($1.7 billion) sale could be offset by any fine related to the U.S. Justice Department's tax amnesty program for firms that helped American citizens evade taxes. For BTG, the deal is transformative, adding CHF 89 billion in wealth AUM to the $30 billion in wealth assets it already managed (BTG has another $83 billion in asset management AUM).

BTG CEO Andre Esteves, one of Brazil's richest individuals, said the acquisition creates a "truly global" wealth business "capable of offering our innovative products and services to clients around the world" and provides the opportunity "to build one of the world's leading private banking franchises." BSI extends BTG's presence in Europe and Asia while expanding its footprint into the Middle East. Steve Jacobs, a managing partner at BTG, told the *Financial Times* that while BSI's European business is attractive the operations in emerging markets, including complementary countries in Latin America, represent "the more significant opportunity." He added that after the integration of BSI is completed over an 18-to-24-month period, BTG could start considering "in-fill" acquisitions.

In a second Swiss deal of note, **Julius Baer** acquired **Bank Leumi**'s private banking clients in Switzerland as well as the business in Luxembourg. Combined, the two operations have CHF 7.2 billion in AUM ($8 billion), primarily in Switzerland. Julius Baer emphasized that it was not acquiring the Israeli bank's Swiss legal entity, which at the time was the subject of settlement negotiations with the U.S. Justice Department for assisting Americans in tax evasion. Julius Baer is also under investigation by the Justice Department. In a second deal, Julius Baer exercised a call option to acquire an additional 50% of fast-growing Brazilian wealth manager **GPS Investimentos**, adding to the 30% it purchased in 2011. Established in 1999, GPS is the largest independent wealth manager in Brazil (AUM: $6.6 billion) and pursues an open-architecture model with no proprietary products. Julius Baer said the operation is profitable and would deliver low single-digit accretion to its adjusted 2014 earnings per share. Brazil's wealth market is estimated at $600 billion.

Other Swiss deals included **LGT Group**'s acquisition of CHF 10 billion in private banking assets from **HSBC Private Bank (Suisse)**. LGT, controlled by the Princely House of Liechtenstein, will wrap those assets and staff into its existing Swiss office, in the process bringing AUM there to CHF 31 billion and total AUM to around CHF 130 billion. The assets acquired are from clients in emerging European and Latin American markets, as well as Western Europe, which LGT called "key" markets in its growth strategy.

HSBC, which like other banks has been streamlining its overall business and ratcheting down transparency- and reputational-related risk, said the divestiture will cut in half the number of countries from which its private bank draws clients. At the same time, HSBC's Swiss office retained about 85% of the assets it manages.

In a small deal, Swiss private bank **Notenstein** acquired the Swiss wealth unit of Germany's **Landesbank Baden-Wurttemberg**, with CHF I billion in AUM, saying the deal "underpins our long-term strategy in private banking to expand our market share in selected key markets." Notenstein, part of banking group **Raiffeisen Switzerland**, had CHF 21 billion in AUM prior to the deal. For LBBW, the divestiture was part of a recently completed restructuring it has been undertaking since 2009 to focus on its core regional banking business. A distress sale saw Portugal's troubled **Banque Privee Espirito Santo** sell the private banking assets of its Iberian and Latin American clients to Swiss private bank **CBH Compagnie Bancaire Helvetique**. For CBH, a family-owned bank with CHF 4.4 billion in client assets, the deal provides entry into those markets.

Another major and fast-growing wealth management center, Singapore, figured into the largest such deal in Asia, as Societe Generale divested its remaining wealth business in the region

Another major and fast-growing wealth management center, Singapore, figured into the largest such deal in Asia, as Societe Generale divested its remaining wealth business in the region. This followed the French bank's 2013 sale of its private banking operation in Japan. The buyer was one of Singapore's big three banks, DBS Bank, which has been expanding both its regional footprint and wealth management business under CEO Piyush Gupta, a **Citigroup** veteran. DBS paid $220 million, or 1.75% of the $12.6 billion in AUM it acquired, for a business centered in the two largest Asian wealth markets outside Japan, Hong Kong and Singapore. Those two markets combined account for 16% of global offshore wealth assets, according to Boston Consulting Group. As of 2013, DBS had the ninth-largest private bank in Asia, with $54 billion in AUM, according to *Private Banker International*, with DBS placing the growth of that business at 20% annually in recent years. Gupta said the deal "will strengthen our wealth management value proposition and further entrench our position as a leading bank in this region." In Asia, SocGen has turned its attention to corporate and investment banking, areas where it says it has "reached a strong sustainable growth."

In a second wealth deal with an Asian buyer and European seller, Manila-based **BDO Unibank** acquired **Deutsche Bank**'s trust business in the Philippines, with $1.6 billion in AUM. The Philippines' largest bank, BDO already managed $17 billion in assets. BDO is controlled by billionaire Henry Sy. In a deal heading the other way, London wealth manager **St. James Place** acquired Hong Kong-based **The Henley Group**, which serves clients in Hong Kong, Singapore and Shanghai and has £400 million ($645 million) in AUM. St. James, one of the U.K.'s largest wealth managers with £48 billion in AUM (up 19% in the year through June 2014), made the purchase as part of a growth strategy seeking to target British expatriates in Asia. "When looking to continue our growth by expanding into international markets it made sense to consider where our approach and expertise would be appropriate," said St. James CEO David Bellamy. "We feel the U.K. expatriate community in Asia offers this opportunity." **Lloyds Banking Group** had been the majority shareholder in St. James before divesting its ownership in 2013.

Another British firm, Aberdeen Asset Management, acquired an 80% stake in Indonesia's **NISP Asset Management** in a bid to expand its footprint in Southeast Asia's largest nation. Aberdeen, with a significant emerging markets focus, has managed an Indonesian fund for international investors since the 1980s. NISP manages $300 million for institutions and individuals in what has been one of the world's best-performing stock markets since the financial crisis (the Indonesia Stock Exchange has a market capitalization of around $400 billion). Referring to Indonesia as a market with "enormous potential," Aberdeen said the deal mixes its "investment expertise" with NISP's "local distribution and product knowledge." NISP, which will be rebranded under the Aberdeen name, was part of banking group **OSBC NISP** (owned by Singapore's Oversea-Chinese Banking Corp.).

With the exception of **AMP**'s purchase of a near-20% stake in **China Life Pension Company**, deal activity in China was quiet last year, although the nation itself continued to reform its financial services industry. Of particular note, China set up the Shanghai-Hong Kong Stock Connect trading scheme, through which international asset managers are for the first time able to buy "A" shares in Shanghai-listed Chinese companies via the Hong Kong Stock Exchange. Chinese investors can similarly purchase Hong Kong-listed shares. But as is generally the case with Chinese reforms, the door was opened only partway, as there are limits on the level of trading that can take place. Previously, foreign investors had been restricted to such purchases under the Qualified Foreign Institutional Investor program or by investing in the small number of Chinese stocks trading in Hong Kong.

AMP of Australia paid $208 million for that minority shareholding in China Life Pension, the largest pension firm in China. Through its investment, AMP becomes the first foreign firm to enter the fast-growing enterprise

annuity market. Similar to the 401(k) market in the U.S., the enterprise annuity program involves voluntary contributions from employers and employees in tax-free accounts. The enterprise annuity market has been growing around 26% annually over the past five years and is expected to reach $620 billion by 2020. AMP said the deal provides it with a "strategic foothold" in that market while extending the relationship it has had with parent **China Life Insurance Co.** since 2005. In 2013, the two companies established **China Life AMP Asset Management Co.** serving retail and institutional investors in China.

Across the Taiwan Strait, Cathay Financial Holding acquired Connecticut-based insurance asset manager Conning (AUM: $91 billion) for a price that could reach $240 million. The deal was cemented with Conning parent **Aquiline Capital Partners**, a New York private equity firm. In 2011, Conning and Cathay, the largest financial holding company in Taiwan, formed an institutional asset management joint venture in Asia-Pacific, with Cathay also assuming a minority stake in Conning. Although three-quarters of its AUM are in North America, Conning's international business has been growing by more than 20% of late. Cathay called the deal "a significant step" toward its goal of building "a complete financial services platform with expertise in asset management, banking and insurance." Conning President and CEO Woody Bradford told Bloomberg the company plans to continue driving growth by making acquisitions and extending its global footprint, saying, "Our strategy has been to pursue global expansion and to continue to broaden our product offerings." Prior to the deal, Conning had acquired $6 billion in assets from Toronto's **Brookfield Investment Management** *(see Money Management)*. *Pensions & Investments* reported last September that insurance companies have outsourced $2.8 trillion to the 50 largest asset managers running non-affiliated insurance assets, a jump of 54% over the past four years, with the lion's share of the money in fixed income. Conning ranked No. 8 on the top-50 list.

There were two other transactions in Taiwan involving divestitures by European firms and Asian buyers. In the larger deal, **Nomura Asset Management** entered the Taiwan market by acquiring the interest of ING Groep in **ING Securities Investment and Trust Company Ltd. Taiwan**. ING Securities has $7 billion in AUM, ranking it among the 10 largest asset managers in the market. NAM, Japan's leading asset manager, called the deal "part of our ongoing expansion in Asia." The Tokyo-based firm partnered with an investment group led by the former CEO of ING Securities. For its part, after years of restructuring following a government bailout, ING has emerged as a far leaner institution, more focused on banking than insurance and centered in Europe, particularly Benelux. A second small deal saw **BNP Paribas** divest the 49% equity it held an asset management joint venture with **Taiwan Cooperative Financial Holding**, a government-controlled entity, although BNP retained an interest in their life insurance venture.

In a significant transPacific deal between two asset managers that pursue boutique models, Australia's **Treasury Group** merged with Seattle's **Northern Lights Capital Group** to create a jointly owned business that will continue under the Treasury name. The combined company holds interests in 21 boutiques with $46 billion in AUM. The companies said the deal creates "an expanded global sourcing and distribution platform" and "increased diversification." Andrew McGill, CEO of publicly traded Treasury Group, will become CEO of the merged firm, as Treasury shareholders take a 61% stake in the combined company. Treasury's boutiques are primarily geared toward institutions while one firm, Sydney-based infrastructure specialist **RARE Infrastructure**, accounts for 41% of assets and two others 45%. Northern Lights' business is similarly dominated by three asset managers, in particular **WHV Investment Management** of San Francisco. WHV is an international and small-cap equities specialist that also pursues a multi-boutique strategy.

Real Estate

When the **California Public Employees' Retirement System** made its widely reported announcement last September that it was unwinding its hedge fund portfolio *(see Hedge Funds/Private Equity)*, another alternative asset class appeared to be on the winning side of that shift: real estate. In its latest asset allocation report, Calpers raised the real estate target from the current 8.6% to 10%, the largest increase of an asset class except real assets (forestland was also bumped from 0.8% to 1%). Real estate accounts for $26 billion of the $300 billion Calpers has in assets.

Calpers is hardly alone. As institutions seek to both manage risk and generate returns and income in an investment world bereft of easy options, real estate is emerging as a favored asset class. Norway's $860 billion oil fund has begun buying up property as it seeks to meet an ambitious 5% asset allocation target, a jump of nearly 4 percentage points. In two commercial deals last year, the fund paid $1.1 billion for office buildings in Boston and London. Canada's C$65 billion ($58 billion) **Ontario Municipal Employees Retirement Association** made its first purchase of property in Continental Europe last year as part of a larger €1 billion ($1.3 billion) investment program in the region.

In a report commissioned last year by **Principal Global Investors**, London-based Create-Research reported what it called "a fundamental shift in the mind-set of investors ... focused on adopting goal-oriented approaches that mitigate unwanted risk, rather than chasing the highest potential returns." Among institutions managing defined benefit plans, the researcher reports that the preference for real estate jumped 26 percentage points to 66% between 2012 and 2014. In describing the attitudes of these institutions, Create-Research wrote: "Real assets and alternative credit structures are more prevalent due to their income and inflation protection characteristics."

The real estate advisory sector, which stands to benefit from the trend, registered 13 deals last year, with most of the transactions crossing borders and occurring in Europe and Asia. Within the U.S., there were two deals of note, the most significant of which saw **Rockefeller Group** acquire a majority interest in **TA Realty**, an established Boston firm with $12 billion in AUM. Rockefeller, an owner, developer and manager of commercial property, said it will make TA its primary real estate investment management platform in the U.S. For Rockefeller parent **Mitsubishi Estate Co.** of Tokyo, the transaction establishes a global asset management platform with $32 billion in AUM. TA currently manages four active commingled funds as well as separate accounts. Rockefeller has been building a real estate advisory platform since 2010, when it became a strategic investor in **Europa Capital**, a European property fund manager. The company followed that by creating its first U.S. property fund in 2013.

The second U.S. transaction involved **GoldenTree Asset Management**'s $47 million acquisition of the operations of **Origen Financial**, a real estate investment trust that manages securitized manufactured housing loan portfolios. The transaction terms include assumption of Origen's securitization financing, subject to adjustments. Based in New York, GoldenTree specializes in corporate and structured credit markets and has $21 billion in AUM in absolute return, long-only and opportunistic strategies.

There were two cross border deals targeting firms in one of Europe's core real estate markets, Germany. Along with France, Germany drove continued strong growth in the European real estate market in the first half of 2014. Total European commercial real estate investment in the six months was €84 billion ($105 billion), a 25% increase over the same period during 2013, according to **CBRE Global Investors**. Germany accounted for €17 billion of that total. In the largest of the two German deals, **Swiss Life Group** added a significant business in that market by paying €210 million for **Corpus Sireo**, Germany's leading independent real estate asset manager. Prior to the deal, Swiss Life's real estate advisory business was concentrated in France and Switzerland. The transaction is part of Swiss Life's effort to diversify its earnings stream. Corpus Sireo, which had been owned by three German savings banks, has €16 billion in AUM and generates annual revenues of €160 million. Corpus Sireo said its new parent will facilitate business development, including entry to new markets and co-investment opportunities.

The second deal saw **Massachusetts Mutual Life Insurance** subsidiary **Cornerstone Real Estate Advisers** enter the German market via the acquisition of a 4-year-old local firm, **Pamera Asset Management**. The deal extends Cornerstone's real estate platform in Europe, adding €1 billion in AUM ($1.4 billion) and a team of 38 employees in several key German cities. Cornerstone said its German platform will be "the most extensive and comprehensive of any international real estate investment manager operating in the country, reflecting Cornerstone's desire to establish a business that manages both German as well as international capital flows into and out of Germany and Europe." Cornerstone, with $44 billion in AUM, has existing European real estate operations in Netherlands, the U.K. and the Nordic countries.

In a third European cross border deal with a link to the German market, **La Francaise** and its partner **Forum Partners** acquired **Cushman & Wakefield Investors**, the European real estate fund manager owned by **Cushman & Wakefield**. CWI has $1.2 billion in AUM in separate accounts and a joint venture fund with **Aberdeen Asset Management**. CWI is a specialist in core and core-plus real estate strategies, primarily in France, Germany, Sweden and the U.K. La Francaise and Forum, which entered a strategic partnership in 2013, split the equity in CWI two-thirds to one-third, respectively. La Francaise said the deal will create a pan-European footprint, including a presence in the three primary European real estate markets of France, Germany and the U.K. CWI was wrapped into a new entity, **La Francaise Forum Real Estate Partners**, with $20 billion in AUM, primarily in direct core real estate investments.

Real Estate Transactions

	2010	2011	2012	2013	2014
Number of Transactions	18	11	10	13	**13**
Combined Value ($M)	$960	$2,058	$230	$875	**$1,458**
Total Seller AUM ($B)	$79.8	$117.4	$38.9	$77.9	**$93**
Average Deal Size ($M)	$53	$187	$23	$67	**$112**
Average Seller AUM ($B)	$4.4	$10.7	$3.9	$6.0	**$7.0**

Source: Berkshire Capital Securities LLC

A transatlantic deal involving a pan-European real estate investment manager saw New York's **NorthStar Realty Finance Corp.** acquire a minority stake in **Aerium Group** of Luxembourg. NorthStar's investment is part of a drive to expand its asset management and international capabilities. Aerium specializes in commercial property and has €6.2 billion in AUM ($8.6 billion) across 11 European countries and Morocco. Subsequently, NorthStar, a commercial property REIT, spun off its asset management unit into a separately traded company, **NorthStar Asset Management Group**. NSAM will manage NorthStar Realty Finance's business under a 20-year contract.

In a cross border deal featuring a U.K. target, **NAB Asset Management** of Australia bought a 75% stake in **Orchard Street Investment Management**,

A transatlantic deal involving a pan-European real estate investment manager saw New York's **NorthStar Realty Finance Corp.** *acquire a minority stake in* **Aerium Group** *of Luxembourg*

a London advisory firm specializing in commercial real estate. Orchard Street, whose AUM has climbed fivefold during its 10 years in business to £4 billion ($7.3 billion), will join the 13 other asset managers in NAM's multi-boutique and global portfolio. The firm said NAM provides a "new, long-term and aligned partner supportive of its existing business focus" serving institutional clients. The deal extends NAM's portfolio into the real estate side of asset management, but also comes amid a broader shift away from the U.K. market by parent **National Australia Bank**. Last year, NAB divested a £625 million portfolio of non-performing commercial property loans in the U.K. and is considering spinning off its **Clydesdale** and **Yorkshire** U.K. bank holdings.

Within the U.K., **Henderson Global Investors** acquired **Old Mutual Global Investors**' property fund, with £437 million ($700 million) in assets. Henderson will wrap the funds into its existing Henderson U.K. Property fund to create a vehicle with £2.7 billion in assets. Old Mutual's fund had been subadvised by CBRE Global Investors. The merged fund will continue to be managed by **TIAA Henderson Real Estate**, the joint venture entity created in 2013 by Henderson and **TIAA-CREF**.

Canada's **Brookfield Asset Management** went trawling in Asia's waters, acquiring the Indian real estate advisory business of **AIG Global Real Estate Investment Corp.** In its most recent annual report, Brookfield said the fund has $300 million of "commitments and commercial real estate investments in two major business centres." In 2011, Brookfield established a presence in India via two funds with local partners focused on infrastructure and property development. This includes the $165 million Peninsula Brookfield India Real Estate fund, a joint venture with **Peninsula Land** of Mumbai. Asia-Pacific accounts for 9% of Brookfield's $200 billion in AUM, more than half of which is property-related. Last year, Brookfield also acquired a real estate private equity firm, **Thayer Lodging Group** *(see Hedge Funds/Private Equity)*.

In a second Asian deal, Shanghai-based diversified conglomerate **Fosun** continued its aggressive international expansion in real estate by acquiring a Japanese advisory firm, **IDERA Capital Management**. IDERA, with ¥160 billion in AUM ($1.6 billion), had been owned by Tokyo-based private equity firm **Unison Capital**. The IDERA deal follows Fosun's significant direct real estate transactions in 2013, when it paid $725 million for One Chase Manhattan Plaza in New York City and £65 million ($100 million) for the Lloyds Chambers building in the City of London. Founded in 1992 and led by billionaire Guo Guangchang, Fosun's business revolves around industrial and insurance operations, with investment and asset management accounting for 16% of assets; it trades on the Hong Kong Stock Exchange. Chinese institutional investment in international property has risen sharply over the last five years, to more than $15 billion in 2013 and $5 billion in the first half of 2014, according to Cushman & Wakefield.

Hedge Funds/Private Equity

When a public pension fund in the U.S. announces it is pulling its investments in hedge funds, that's news. When the pension fund happens to be not only the nation's largest such fund but one of the earliest institutional proponents of the investment vehicles, that's big news. In September, then, when the **California Public Employees' Retirement System** said it was unwinding its hedge fund program, the debate about the efficacy of hedge fund investing that has been taking place since the financial crisis picked up a new head of steam.

Wall Street Journal "Heard on the Street" column reporter Justin Lahart compared the lagging performance of Calpers' hedge fund portfolio against plain-vanilla indexes and suggested that the "most surprising thing" about the announcement "may not be the decision itself, but that it took so long." Calling Calpers' decision "a significant blow to the sector's appeal," *The Economist* asked, "Have the whizz kids of finance lost their va-va-voom?"

In what at times appeared to be a gleeful pile-on against a traditionally self-assured industry, commentators zeroed in on the rich "2 and 20" fee structure that has itself been under pressure. In Europe, where institutions have long been skeptical about hedge funds and more averse to the fee structure, Edmund Truell, chairman of the **London Pension Fund Authority**, told the *Financial Times*: "In a low interest rate environment you cannot justify the traditional hedge fund fee structure, and as a steward of public money we cannot pay those fees." Following the Calpers announcement, the *Financial Times* noted that a review of industry data indicated that since 2008, public sector pension plans have paid 72 cents in fees for every $1 of new investment gains generated by hedge funds.

For its part, Calpers said that in gauging the cost and complexity of the investments, as well as its own inability to scale the investments, the hedge fund program "is no longer warranted." The fund's portfolio included 30 hedge funds and fund of funds accounting for $4 billion, or 1.3% of its $300 billion in assets. Yet, for all the hue and cry, the industry appears to be sitting pretty.

Through the first three quarters of 2014, hedge fund assets worldwide rose 7% to $2.8 trillion, according to researcher HFR. Of equal importance, net inflows were $73 billion — the highest nine-month total since 2007, with fixed income and credit strategies in particular favor.

At the same time, disappointment among institutions in the performance of their hedge fund managers could be divined in third-quarter data from HFR that showed inflows to small firms (under $1 billion in AUM) exceeding those into the largest firms (more than $5 billion) for the first time since 2009. Inflows to mid-size firms also exceeded those to the largest. While institutions have gravitated to the larger firms for their transparency and risk management capabilities, the funds can lack the agility of their smaller competitors and face greater challenges in generating superior returns.

As institutions and observers engaged in that vigorous and very public debate surrounding the Calpers decision, the hedge fund M&A marketplace drew a significant number of large asset managers making outright acquisitions or investments, led by **Man Group**. A perennial presence on both sides of the negotiating table and flush with cash on its balance sheet, Man stepped up to conclude five transactions, four of which extended its presence in the U.S. The key deal involved quantitative equity manager **Numeric Holdings**. Founded in 1989 and based in Boston, privately held Numeric had nearly $15 billion in AUM at the time of the deal last June. Sellers included private equity firm **TA Associates**, whose interest in Numeric dated to 2004, when it completed a $240 million recapitalization of the firm.

Man paid $219 million in cash, with an additional payment of up to $275 million possible to Numeric management and employees after year five based on the run rate profitability of the business. When added to Man's quant-driven **AHL** business, Numeric helps Man expand a quant portfolio that has suffered from outflows and lagging performance. In total, Man will have $25 billion in AUM in that portfolio, with nearly all of Numeric's assets in long-only funds. Numeric also provides Man with a stronger U.S. footprint and new ties to institutional investors. More than 90% of Numeric's funds are sourced from North America and Europe, with an even split between the two regions. By contrast, Man's "Americas" business accounted for just 7% of assets prior to the deal, while Europe accounted for nearly three-quarters. Calling Man a "perfect strategic partner," Numeric said it was seeking a partner "who would preserve complete independence of our investment process and provide strategic support."

Two other acquisitions involved New York-area firms with a credit orientation, with the larger deal seeing Man buy **Silvermine Capital Management** (AUM: $3.8 billion), a 9-year-old specialist in collateralized loan obligations. Man said the deal enhances its existing **Man GLG** credit business and provides "the necessary scale to become a significant player in the U.S. CLO market." Man will make an upfront payment of $23.5 million, with additional earnout payments over five years that could total $46.5 million. The second credit deal involved fund of hedge funds manager **Pine Grove Asset Management**. Founded in 1994, Pine Grove specializes in credit-focused portfolios and has about $1 billion in AUM, two-thirds managed for institutions. The deal extends Man's fund of funds business (AUM: $11 billion), operating under the **FRM** name. Pine Grove said it was at the "point in our evolution where the additional infrastructure, resources and support available at FRM will provide significant benefits to existing and future clients." In 2012, Man acquired London-based FRM to create the largest fund of funds business outside the U.S., but assets have declined significantly since then.

Hedge Fund/Hedge Fund of Funds Transactions

	2010	2011	2012	2013	2014
Number of Transactions	20	14	23	19	**7**
Combined Value ($M)	$2,792	$873	$892	$755	**$75.5**
Total Seller AUM ($B)	$125.0	$42.9	$60.5	$71.1	**$7.0**
Average Deal Size ($M)	$140	$62	$39	$40	**$11**
Average Seller AUM ($B)	$6.3	$3.1	$2.6	$3.7	**$1.0**

Source: Berkshire Capital Securities LLC

Man's fourth acquisition also took place in the fund of funds space, as it acquired such contracts from **Merrill Lynch Alternative Investments**. The Merrill portfolio, with $1.2 billion in AUM, consists of multi-strategy and strategy-focused funds that Man said complement its existing offerings. Merrill will receive an upfront payment of $2.9 million, 35% of net annual management fees for five years, and earnouts capped at $33 million. In the final deal, Man Group spun out its wholly owned subsidiary in Canada, **Man Investments Canada**, to management. Man said it will focus on its institutional business in that market while Man Investments maintains a retail orientation.

Legg Mason acquired U.S.-based quantitative equity shop **QS Investors** with the goal of wrapping the firm's products into an existing portfolio of Legg Mason investments. The expanded platform will be rebranded under the QS name and will incorporate customized solutions from Legg Mason and QS, along with quant equity products from both firms. Legg Mason is also planning to mine the portfolio to create products for retail investors it can distribute through its global platform, as well as subadvisory products. Joseph Sullivan, president and CEO of Legg Mason, emphasized during a quarterly conference call that the

ability to develop a "highly customized approach" for institutions and retail clients constitutes an "enduring and permanent approach to the market. QS is world-class in that respect." Legg Mason could pay up to $41 million for QS, which has $4.1 billion in AUM and $100 billion in assets under advice. QS was spun out from **Deutsche Bank** in 2010.

Two major private equity firms, **Blackstone Group** and **KKR & Co.**, continued to extend their hedge fund businesses via minority investments. For Blackstone, that involved exercising the terms of a 6-year-old equity seeding agreement with **Senator Investment Group**, an events-driven manager with $7 billion in AUM. Around the time of the Senator deal in the first quarter, Blackstone also revealed that it had raised half the $3 billion it is seeking in funding to acquire stakes in mid-size hedge funds. In the fourth quarter, the firm was also reportedly set to launch an in-house hedge fund run by a small number of traders "likely to oversee billions of dollars in positions collectively," according to the *Wall Street Journal*. As of the third quarter, Blackstone had $64 billion in AUM in its fund of funds Hedge Funds Solutions unit, a 21% jump over the same period in 2013. This included a record $4.3 billion in gross inflows, driven by investments in customized and commingled strategies.

Private Equity Fund Transactions

	2010	2011	2012	2013	2014
Number of Transactions	12	5	9	9	**7**
Combined Value ($M)	$2,403	$464	$575	$834	**$354**
Total Seller AUM ($B)	$54.5	$65.8	$31.6	$55.4	**$39**
Average Deal Size ($M)	$200	$93	$64	$93	**$51**
Average Seller AUM ($B)	$4.5	$13.2	$3.5	$6.2	**$5.5**

Source: Berkshire Capital Securities LLC

KKR acquired a near-25% stake in **BlackGold Capital Management**, a Houston-based credit-oriented manager operating in the energy industry. Founded in 2006, BlackGold has $1.4 billion in AUM and specializes in event-driven strategies with what KKR called "repeatable low correlation and volatility returns." The private equity firm will add BlackGold to its hedge fund platform, which includes a $10 billion multi-manager business as well as a strategic stakes and seeding business. CNBC reported that the BlackGold Opportunity Fund delivered annualized returns of 31% between 2009 and May 2014. KKR itself has a long-term record for making energy investments, with some $9 billion of capital in its energy and infrastructure business across funds and separate accounts and on its balance sheet.

New York Life Insurance Co., which in 2013 made the transformational deal for Dexia Asset Management, returned to its tack-on strategy by acquiring an alternative exchanged traded fund provider, **Index IQ** (AUM: $1.5 billion). The New York firm will be wrapped into the insurer's **MainStay Investments** unit, which already manages liquid alternative funds. Drew Lawton, CEO of **New York Life Investment Management**, told Bloomberg the deal "puts us into the forefront of two very important growth trends in the industry," ETFs and liquid alternatives. Index IQ's flagship IQ Hedge Multi-Strategy Tracker ETF, introduced in 2009, aims to replicate the risk-adjusted returns of hedge funds using a broad range of styles, including long/short equity, global macro and event driven.

Goldman Sachs acquired stakes in three varied hedge funds via its Petershill II fund, launched in early 2014 as a follow-up to its similarly focused $1 billion Petershill I fund. Petershill II closed its initial round of fundraising with $400 million, with a goal of $1 billion and a strategy of investing in mid-size to large firms. The most notable investment last year in Petershill II was a 10% stake in **Caxton Associates** (AUM: $8 billion), which Goldman could double by 2015. Caxton is one of the legendary global macro funds, but these days is run by its decidedly low-key chief executive, Andrew Law, who took over from founder Bruce Kovner in 2011. A second deal involved **Knighthead Capital** (AUM: $4.3 billion), a distressed debt manager founded in 2008 by a former Goldman managing director. For a third investment, Petershill tapped a long/short equity fund, **Pelham Capital**, with about $3 billion in assets, primarily in Europe. London-based Pelham was started in 2007 with $57 million in assets by Ross Turner, who in his 20s became the youngest partner at U.K. hedge fund **Lansdowne Partners**.

In another transatlantic deal, Switzerland's **GAM** acquired **Singleterry Mansley Asset Management**, an established specialist in mortgage- and asset-backed securities with $400 million in AUM. GAM said the New Jersey firm "will add a specialist skill set" to its existing unconstrained bond strategy and "offer investors a new source of attractive risk-adjusted returns." Singleterry has delivered net annualized returns of 13.7% since 2002 with positive returns in every calendar year. GAM said it will rebrand Singleterry's offshore fund under the GAM name and launch a new GAM UCITS fund employing Singleterry strategies. Singleterry said GAM will provide a global distribution network and operational and compliance support.

Neuberger Berman cut a deal to acquire 100% of the interest of **Ramius** and employees in a global long/short credit investor, **Orchard Square Partners**. Orchard, based in New York, manages $475 million for institutions and individuals. Ramius, the alternative investment arm of financial services firm **Cowen Group**, created Orchard in 2012 as a means of granting partnerships to the two portfolio managers who run the credit funds, which started up in 2009. Neuberger has also been buying minority stakes in institutional hedge

funds through its **Dyal Capital Partners** unit, including five such deals in 2013, with those firms collectively holding $39 billion in AUM. In a second alternatives deal last year, executed through Dyal, Neuberger acquired a 10% stake in **Providence Equity Partners**, a private equity firm with $40 billion in AUM.

Investment bank **Cantor Fitzgerald** bought a fixed income absolute return fund of funds firm as it continues to diversify into asset management. The target, **Fintan Partners**, was founded in 2005 by Alex Klikoff, the former managing director for absolute return investments for the Stanford University endowment. California-based Fintan seeks out small, specialist managers and emerging strategies with fewer competitors in an effort to counter an "overly crowded" hedge fund industry characterized by "high correlations and declining returns." Cantor touted the combination of its own "capital markets expertise, unparalleled distribution network, and fixed income strength with Fintan's highly respected professionals and research capabilities." *(Cantor also acquired two wealth managers; see Wealth.)*

Manning & Napier expanded into alternatives with the acquisition of **2100 Xenon Group** (AUM: $200 million), a Chicago-based global macro strategies and managed futures specialist in business since 2001. Subsequently, Manning added a fixed income managed futures allocation to its target date funds and collective investment trusts. In referring to that action, Manning CEO Patrick Cunningham told investors during a second-quarter conference call: "Our goal in adding the managed future allocations is to incorporate our risk management tool to protect against the potential for rising interest rates and to add a non-correlated return stream to further diversify these portfolios." Cunningham said the company would also seek to distribute managed futures products to clients throughout the U.S. **Old Mutual Asset Management** sold 2100 Xenon to management in 2012 as part of a larger restructuring of its portfolio.

There were just a handful of deals in Europe, led by **La Francaise**'s minority investment in **Tages Capital**, a 3-year-old fund of funds manager that provides customized solutions. As part of the deal, the two firms merged their fund of funds units to create a business with $3 billion in AUM, primarily from Tages. Tages, based in London and Milan, will handle investment while La Francaise runs distribution in France. The two firms will also develop the joint business outside France. La Francaise has seen assets in its fund of funds business drop by two-thirds since 2008, a situation faced by many such funds as investors reject the layers of fees that characterize these businesses. Tages followed up on that agreement by reaching a distribution deal in Germany and Austria with Germany's **Gauly Dittrich van de Weyer Asset Management**. As part of another strategic partnership, Tages provided backing for a new London-based European credit long/short fund, **Palmerston Capital**, founded by **J.P. Morgan**'s former head of European credit trading.

Neuberger has also been buying minority stakes in institutional hedge funds through its ***Dyal Capital Partners*** *unit, including five such deals in 2013*

A second all-European deal saw **Deutsche Bank** acquire $85 million in illiquid hedge fund assets from an unnamed Swiss asset manager. Deutsche concluded the deal via its Aggregator Solutions fund, which was created to capitalize on such opportunities. The fund closed in 2013 with $1 billion in commitments and has either acquired or had bids accepted on positions with a net asset value of $400 million. Following the financial crisis, as much as $100 billion in hedge fund assets were parked in often controversial "side pockets," generally the most illiquid and difficult-to-value assets held by the funds. That situation in turn created a secondary market in which the assets traded at a steep discount to net asset value. But London secondaries broker **Cattegatt Capital** wrote in *Hedge Fund Journal* last August that trading in the investments "has continued to increase relative to previous trading periods," in line with an improved economic climate. The ongoing search for yield is another factor: The assets are offering an internal rate of return of 17% to 20%.

One of Europe's largest hedge funds, **BlueCrest Capital Management**, announced it will spin off its BlueTrend quant-driven funds. The flagship 10-year-old BlueTrend fund has a solid long-term track record, but performance has suffered in recent years and assets have dropped in half to $8 billion, leading the fund to cut its management fees last year. The funds will operate under a new firm, **Systematica Investments**, that will be led by prominent trader Leda Braga, BlueCrest's chief of systematic trading and commonly referred to as the most powerful woman in the hedge fund industry. Guernsey-based BlueCrest will assume a minority ownership position in the new firm. BlueCrest, which in 2011 acquired the 25% interest held by Man Group, has endured its own challenges, with assets having declined by a third to $27 billion since 2012.

There were several deals in emerging markets, the most significant of which took place in Brazil, where **Credit Suisse** teamed with the chief investment officer of its local asset manager, Luis Stuhlberger, to create **Verde Asset Management**. The new firm, to be controlled by Stuhlberger, will have $14 billion in assets and will commence operations this year. Credit Suisse made a total $1 billion-plus investment in Stuhlberger's Hedging-Griffo in 2006 and 2011 to assume control of what became **Credit Suisse Hedging-Griffo**. The new deal

is designed to keep Stuhlberger, a legendary Brazilian hedge fund trader, in the Credit Suisse fold. "We're rebalancing the revenue split between the bank and Luis in a perennial and intelligent way," Credit Suisse's CEO in Brazil, Jose Olympio Pereira, told the *Valor Economico* newspaper. In addition to the flagship Fundo Verde hedge fund, Credit Suisse Hedging Griffo also managed equity funds and fund of funds.

Singapore's powerful sovereign wealth fund **Temasek Holdings** committed $500 million to a hedge fund seeding business managed by **Dymon Asia Capital**, which is also based in the island republic. As part of the deal, Temasek will take a minority stake in Dymon, a macro hedge fund that has seen its AUM climb from over $100 million to $3.5 billion since its founding in 2008. In 2012, Temasek invested in an Asia-focused private equity fund run by Dymon, which was started by Singaporean Danny Yong, a veteran of **Citadel** and Goldman Sachs in Asia. Dymon made its first hedge fund seeding investment last year in **Port Meadow**, a long/short Asian-focused fund run by an alumni of **SEC Capital Advisors** and based in the U.K.

There were several notable all-U.S. private equity deals, including ***Affiliated Managers Group****'s acquisition of* ***EIG Global Energy Partners***

TPG Capital of Texas secured a strategic alliance with Hong Kong's **HS Group** through which the U.S. private equity giant will gain an equity interest, provide capital for seeding hedge funds, and refer institutional clients. Taking note of the growth of Asia's hedge fund industry, TPG said that HS Group's "relationships with the region's strongest investment talent combined with institutional best practices complement TPG's vision for the industry." HS Group was founded by a couple of former employees of Blackstone and Goldman Sachs as a vehicle for seeding Asian hedge funds. Switzerland's **Gottex Asset Management** is also an investor in HS Group. HS Group itself has invested in **Pleiad Investment Advisors**, a Hong Kong hedge fund started up by two **Soros Fund Management** veterans in Asia. Preqin estimates the size of the Asia-Pacific-based hedge fund industry at around $112 billion in AUM as of 2013, with the industry centered in Australia, Hong Kong and Singapore.

There were several notable all-U.S. private equity deals, including **Affiliated Managers Group**'s acquisition of **EIG Global Energy Partners**, a Washington, D.C.-based energy specialist that has seen its AUM nearly double to $16 billion since its spinoff from **TCW Group** in 2011. AMG, which assumed a minority stake in the 32-year-old firm, gains a new product line for its distribution platform while EIG called its new investor an ideal partner as it heads "into our next phase of growth and development." In December 2013, EIG closed a $6 billion energy fund, the largest in its history, with commitments from 150 limited partners in 18 countries. AMG joins another minority shareholder, sovereign wealth fund **China Investment Corp.**, which assumed a non-voting stake in 2012. *(AMG made two deals for money managers last year; see Money Management.)*

Oaktree Capital Management acquired **Highstar Capital**, a private equity firm focused on infrastructure investments that Oaktree said are complementary to its own investments in companies providing products and services supporting energy and utility infrastructures. In touting the deal rationale, Oaktree pointed to an aging global infrastructure and the shift to public-private partnerships that are "creating opportunities for experienced and knowledgeable investors." Since 2000, Highstar has managed $7 billion in committed capital in energy, environmental services and transportation infrastructure. Oaktree, a distressed debt specialist that went public in 2012, said it will take over as manager of the Highstar Fund IV (AUM: $2.3 billion).

JPMorgan Chase divested its interest in half the portfolio companies held in its principal private equity unit, **One Equity Partners**, with **Lexington Partners** and **AlpInvest Partners** acquiring those interests. One Equity will in turn form a new private equity firm, **OEP Capital Advisors**, that will be independent of JPMorgan while continuing to manage the bank's remaining investments. Since 2001, OEP has invested in more than 70 varied companies, with pricing on each deal generally ranging from $50 million to $250 million. Lexington, the largest independent manager of secondary acquisition and co-investment funds, has made two other post-financial-crisis acquisitions of private equity assets being divested by banks. AlpInvest of the Netherlands, part of **Carlyle Group**, called the deal "a great opportunity to partner with one of the industry's leading private equity firms."

In a real estate-related private equity transaction, Toronto's **Brookfield Asset Management** acquired **Thayer Lodging Group**, a hotel investor. Founded in 1991 and based in Maryland, Thayer has over the years completed more than 40 hotel investments at a cost of $2.5 billion; it also has a hotel joint venture in China. Thayer will operate as a subsidiary of Brookfield and maintain its management team. While a major real estate asset manager, Brookfield has a limited presence in the hotel sector, which has been bouncing back from the slump it experienced after the financial crisis. "In Brookfield, we have found a partner that shares our optimistic view of the acquisition market for full-service hotels in major markets worldwide, and provides access to an ongoing source of capital," said Thayer.

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