Berkshire Capital Securities LLC

2011 | Investment Management Industry Review

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Founded in 1983, Berkshire Capital is an employee-controlled investment bank headquartered in New York with offices in Denver and London. 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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More changes on the menu

Time was when the "early bird" special was the sole purview of senior citizens, with a particularly loyal following in Florida. The financial crisis has changed all that: the New York Times reported early last year that hard-pressed, middle-aged patrons and even 20-somethings are now capitalizing on the bargain dining period in the Sunshine State.

As the financial crisis lingers, those diners aren't the only unlikely converts to the "early bird" circuit. In September, for example, the Financial Times reported that international private equity firm **BC Partners** offered a 5% "early bird" discount on fees for investors who made an initial commitment to the firm's new $7.8 billion buyout fund, scheduled to close this year. While the sums of money involved eclipse the 5 o'clock dinner special, the strategy is similar: prying money from frugal customers.

Like many businesses and individuals, the private equity industry — which in 2006 accounted for 18% of global merger-and-acquisition activity by value ($740 billion) — is facing tougher times. Analysts, poring over the data, have begun to question whether the industry as a whole delivers strong enough returns to justify its premium fee structure, and investors themselves have reined in their commitments. In the first three quarters of 2010, the industry raised $172 billion, down 25% from 2009 and about one-third the level in 2008, according to Preqin. The amount of time it takes to close funds is also on the rise, and, at nearly 20 months last year, was twice the time of 2004.

The diminished fortunes of the private equity industry mirrored a larger and generally cautious investment picture as the world emerged from Calendar Year Four since the start of the financial crisis in the summer and fall of 2007. For most of the year, investors continued to shy away from equities, which in the U.S. recorded negative flows in the first three quarters of 2010 according to the Investment Company Institute (ICI). Equity funds did boost their share of the mutual fund market to 46% ($5.2 trillion in assets) in the first three quarters from 39% two years earlier, but that level was still below the 50% to 60% range that prevailed between 1997 and 2007 (with the exception of 2002).

Moreover, when investors do opt for stock funds, they are increasingly choosing economical index-based products, including exchange traded funds (ETFs). Driven by net inflows, ETF assets rose 13% in both the U.S. and Europe in the first three quarters of 2010, to $797 billion and $256 billion, respectively, according to **BlackRock**, with the U.S. number eclipsing $1 trillion in early December. A report done by London's Create-Research for **Citigroup** and **Principal Global Investors** suggests that index funds could add 10 share points by the end of this decade to account for 25% of total global assets, although the firm allows that as the indices grow larger, creeping "inefficiencies" could set the stage for active managers to "strike back."

Fixed income mutual funds, which registered a record $376 billion in net inflows in the U.S. in 2009, enjoyed inflows of $243 billion in the first nine months of 2010, according to ICI. **Pimco's Total Return Fund** continued to bolster its dominant position among mutual funds, as assets jumped 27% in the first 10 months of 2010 to $256 billion — double the level just two years earlier. In the third quarter, investors parked more new money with Pimco ($56 billion) than with any other asset manager. (In December, Pimco changed the Total Return Fund's mandate to allow for investing up to 10% of assets in preferred stock and convertible securities.)

In the frantic search for yield, investors were also betting on riskier instruments, in the first three quarters pumping $172 billion into new junk bond issues in the U.S. — a number that surpassed the previous annual record, according to Thomson Reuters. As demand rose and investors comforted themselves with the sharp drop in defaults, previously beaten-down junk bond prices reached elevated levels last seen prior to the financial crash. Global junk bond issuance during the same period

Asia Leads

GDP Growth (Decline)	2009	2010*	2011*
Advanced Economies	(3.2%)	2.7%	**2.2%**
U.S.	(2.6)	2.6	**2.3**
Euro Area	(4.1)	1.7	**1.5**
U.K.	(4.9)	1.7	**2.0**
Japan	(5.2)	2.8	**1.5**
Developing Asia	6.9	9.4	**8.4**
China	9.1	10.5	**9.6**
India	5.7	9.7	**8.4**
Global	(0.6)	4.8	**4.2**
World Trade			
Volume (goods & svcs.)	(11.0%)	+11.4%	**+7.0**

** Projected*

Source: IMF, October 2010

— at $209 billion, nearly double the year-earlier level — also set a new annual record. In an interview with Bloomberg, one **Deutsche Bank** fixed income manager provided a succinct view: "Junk bonds have benefited greatly by the fact that they're the only place in the fixed income world you can get some nice return."

Emerging markets, which have registered solid economic growth in the face of the developed world's woes, also drew investors, with EPFR Global data showing record bond fund net inflows in the first nine months of $39 billion and equity fund flows at a record $84 billion through the first three weeks of November. Goldman Sachs in a recent study estimates that institutional investors in developed markets could purchase $4 trillion in emerging market equities through 2030, with those nations potentially raising their share of global market capitalization to 55% from the current 31%.

Not coincidentally, selected emerging markets in Asia and Latin America offered some of the best equity returns last year. As corporate profits surged, U.S. markets also generated positive numbers, the flow of money and uncertainty among investors notwithstanding. As of the third quarter, Thomson Reuters estimated that full-year 2010 profits at Standard & Poor's 500 companies would rise a collective 36% while projecting 14% growth in 2011. The Wall Street Journal reported in December that nonfinancial companies were sitting on $1.93 trillion in cash and other liquid assets, with cash accounting for 7.4% of total assets, a ratio last seen in 1959.

IN TOTAL, THERE WERE 143 DEALS VALUED AT MORE THAN $21 BILLION, INCLUDING THREE BILLION-DOLLAR-PLUS TRANSACTIONS

The stabilization of the U.S. banking industry was another positive development in 2010, with financial firms in the S&P 500 expected to record 144% growth in profits for the full year and another 25% in 2011, according to Thomson Reuters. Between the third quarters of 2009 and 2010, commercial and savings banks in the U.S. insured by the Federal Deposit Insurance Corporation (FDIC) saw profits climb sevenfold to $14.5 billion, driven in large part by a reduction in provisions for loan losses that accrued to the bottom line. The third quarter results marked the fifth consecutive quarter the industry recorded gains in profitability.

The improved picture led the Federal Reserve in November to give the green light to banks to boost dividends again, albeit within the context of new and more restrictive capital requirements. That edict occurred just a month after the government wound down a 2-year-old Troubled Asset Relief Program (TARP) that is expected to ultimately cost taxpayers anywhere from $50 billion to $100 billion — far less than originally feared. In December, the U.S. Treasury also sold the remainder of its stake in the now-profitable Citigroup, a bailout that ended up generating a $12 billion profit for Uncle Sam.

Taking a Chance on Debt

	2009	2010
Global High-Yield Debt Offerings	$177bn	$318bn (+80%)
Average Spread	608 bps	148 bps

Source: Thomson Reuters

Going forward, however, analysts raise questions about the impact on bank profitability of new regulations, with Standard & Poor's suggesting in a very early and broad review that the eight largest banks in the U.S. could take a collective annual hit to profits in the area of $20 billion, based on a loss of proprietary trading income, reduced derivatives trading income, and lower debit card fees. S&P did acknowledge that its findings were "subject to significant uncertainties" based upon the final rules and implementation while also expressing confidence that banks could generate greater profits in other areas to offset the losses.

Within the asset management industry, buyers evidenced both increased confidence and opportunism in 2010, as stock markets, though erratic, provided positive returns; assets and profits rose; and regulatory changes and the accumulated pressures of several years of depressed markets drove sales. Banks continued to reorganize operations in response to financial challenges and regulations, selling several asset managers, including alternatives businesses. The challenges of economics and scale or succession issues continued to motivate boutiques to sell, though many held on to equity in line with recent trends and best practices.

In total, there were 143 deals valued at more than $21 billion in aggregate, including three billion-dollar-plus transactions, with two of the buyers being Canadian banks. Unlike their larger brethren across the border and in Europe, Canada's banks avoided the subprime debacle, and emerged with solid balance sheets and an eye on expansion. The largest deal involving a Canadian bank — and the largest in 2010 — was a strictly domestic affair that saw **Scotiabank** pay $2.3 billion for the 82% of mutual fund manager **DundeeWealth** it did not own. The addition made Scotiabank the fifth-largest mutual fund manager in the country and furthered the consolidation

trend in the nation's asset management industry. Scotiabank also cut two deals for wealth managers, including **BNP Paribas**' Panamanian-based business.

In the second mega-deal, **Royal Bank of Canada** extended its footprint with the $1.5 billion acquisition of London's **BlueBay Asset Management**, which manages $40 billion in a mix of traditional and alternative assets in Europe and emerging markets. Two other Canadian firms, **Foresters** and **Sprott Inc.**, made acquisitions in the U.S., while Toronto-based mutual fund giant **CI Financial** scooped up the Canadian fund business of **Hartford Financial Services Group**. In a deal between two Toronto firms, **AGF Management** paid $320 million (with about one-third subject to deferral over three years) for **Acuity Investment Management** (AUM: $7 billion), one of Canada's few remaining independent mid-size fund managers.

Elsewhere, banks damaged by the financial crisis remained sellers, including **Royal Bank of Scotland** and **Bank of Ireland**, which sold asset managers to **Aberdeen Asset Management** and **State Street Global Advisors**, respectively. Several major banks shopped their alternatives businesses last year, to comply with regulatory changes and/or as part of strategic reorganizations. A number of these deals involved management buyouts, including the first of five private equity unit divestitures planned by **HSBC. Bank of America**, **Citigroup** and **Morgan Stanley** also sold alternative asset managers, while Bank of America sold more than $8 billion in BlackRock shares — a stake it inherited with the 2009 acquisition of **Merrill Lynch & Co. Deutsche Bank** divested its large New York-based quantitative manager, **QS Investors**, but did make two investments, including the purchase of a 49% stake in New Zealand broker and asset manager **Craigs Investment Partners**. **SunTrust Banks** and **Unicredit** were among other banks reviewing the sale of asset management units.

One of the higher-profile distress deals involved **M&T Bank Corp.**'s acquisition of **Wilmington Trust**. Although Buffalo-based M&T took on a balance sheet laden with bad construction loans, it paid a knockdown price of $351 million in stock and gained the Delaware bank's prestigious wealth and asset management businesses (AUM: $58 billion). **Bank of Montreal** added to its Midwest banking and wealth operations with the $4.1 billion acquisition of Wisconsin-based **Marshall & Isley**, also troubled by loan losses. M&I has $33 billion in AUM and another $129 billion in assets under administration (AUA) in a wealth business that accounts for 12% of revenue. Bank of Montreal, with some $260 billion in AUM and AUA in its private client business, owns Chicago's **Harris Bank**, which also has a significant wealth unit. Analysts expect numerous takeovers of struggling regional banks over the next two years.

Bailout recipient **Commerzbank** continued to divest its wealth business outside Germany, adding one more sale (of **Dresdner Bank Monaco**) to the six it executed in 2009. Although it did draw such notable buyers as **BNY Mellon, Focus Financial Partners** and **Northern Trust**, the wealth sector was otherwise quiet for a second consecutive year.

Back from the Lows

Major Stock Indices	2010 v. 2009 (%)	Close 12/31/10	Recent Low (Mo./Yr.)
Dow Jones Ind. Avg.	11.0%	11,578	6,547 (3/09)
S&P 500	12.8	1,258	677 (3/09)
Nasdaq	16.9	2,653	1,269 (3/09)
FTSE 100 (U.K.)	9.0	5,900	3,512 (3/09)
DAX (Germany)	16.1	6,914	3,665 (3/09)
Nikkei 225	(3.0)	10,229	7,055 (3/09)
China (Shanghai "A")	(14.3)	2,808	1,707 (11/08)

Dow Jones U.S. Industry Index	% gain 2010 v. 2009
Financials	12.0%
Asset Managers	8.1
Banks	10.6
Life Insurance	23.0
Investment Services	1.6

Meanwhile, McKinsey & Co.'s latest annual survey of European private banking showed the continuing pressure the sector faces, with profitability declining again in 2009 to 20 basis points of AUM — about half the level of 2005 — even as AUM increased by 10%.

As the credit markets began to gain some footing, several large alternative asset managers took the opportunity to expand their capabilities via acquisitions. **Blackstone Group** followed up on its major 2008 purchase of credit asset manager **GSO Capital Partners** to buy the collateral management agreements for collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) managed by **Callidus Capital Management**. **Fortress Investment Group** acquired two businesses with a total of $13 billion in CDO assets. **Carlyle Group**, a particularly aggressive dealmaker last year in a range of industries, bought the collateral management contracts for 11 CLO funds managed by **Stanfield Capital Partners.** Carlyle which is reviewing a public offering, also acquired a 55% stake in a long-short credit hedge fund,

Claren Road (AUM: $4.5 billion). Institutional investors appeared to show an increasing interest in credit hedge fund strategies last year as part of an effort to diversify alternative assets away from equities.

The hedge fund industry accounted for the third mega-deal of 2010, as **Man Group** paid $1.6 billion for **GLG Partners**. In an increasingly stratified hedge fund universe, the deal created a top-two industry leader with more than $50 billion in dedicated hedge fund AUM. The transaction also teams two publicly-traded and complementary firms that have seen their performances drop off considerably since start of the financial crisis. In a busy year for dealmakers, the alternative sector drew such cross border buyers as **Credit Suisse Group, Gottex Fund Management, JPMorgan Chase, Natixis, Sciens Capital Management** and **TPG-Axon**. In the largest of three deals it made last year, **Affiliated Managers Group** paid $775 million for 85% of London private equity fund of funds manager **Pantheon Ventures**, a top-three fund of funds manager in that industry.

In what is likely a harbinger of deals to come featuring buyers from emerging markets, India's **Religare Enterprises** invested in two U.S.-based alternative asset managers, paying $200 million for a majority of San Francisco's **Northgate Capital**, a private equity fund of funds firm with $3 billion in AUM, and $172 million for 55% of Connecticut's **Landmark Partners**, a private equity and real estate fund of funds manager with more than $8 billion in committed capital. Religare plans to create a separately traded U.S.-based global asset management business built mainly around boutiques. Within emerging markets, Brazilian investment bank and wealth manager **BTG Pactual** received a $1.8 billion capital infusion from a consortium of three powerful emerging markets sovereign wealth funds: **Abu Dhabi Investment Council**, **China Investment Corp.**, and **Government of Singapore Investment Corp.**

The real estate advisory sector drew a number of opportunistic investors last year, including **Rockefeller Group International**, which entered Europe via an investment in real estate fund manager **Europa Capital**. **Guardian Life Insurance** took a minority stake in **Lowe Enterprises**' real estate advisory unit, calling it an "opportune time to invest in real estate." In Europe, management in two advisory firms bought out the "non-core" interests of two large financial firms, Merrill Lynch and **KBC Asset Management**.

The world economy and the markets made it through one more year of crisis with a collective balance sheet that appears precariously balanced between recovery and chaos, in part because the long-term cost of maintaining that uneasy equilibrium continues to mushroom. In the U.S., the deal cemented in December between President Barack Obama and Congress to extend Bush-era tax cuts and unemployment insurance could mean a 2011 deficit exceeding the $1.3 trillion level reached in 2010. The deficit forecast for 2012 also remains above the $1 trillion level.

Emerging Markets Surge

Mergers & Acquisitions, All Industries

Value of Announced Deals ($ billions)	2010	2010 v. 2009 (%)
Worldwide	$2,434	+23%
U.S	$882	+14
Europe	$641	+10
Asia-Pacific	$482	+49
Emerging Markets	$806	+76

2010 M&A (misc)

Finance sector % of target value = 15%

Source: Thomson Reuters

Investment Management Transactions

	2006	2007	2008	2009	2010
Majority Equity	150	166	149	115	**115**
Minority Equity	12	26	29	5	**15**
Management Buyout	5	12	21	15	**13**
Total	**167**	**204**	**199**	**135**	**143**
Total Transaction Value ($B)	$47.2	$37.4	$16.3	$31.7	**$21.2**
Total AUM Changing Hands ($B)	$2,340	$1,155	$1,148	$3,300	**$1,134**

Source: Berkshire Capital Securities LLC

Europe remained in its own controlled but perpetual state of crisis, with the bailout of Greece beginning in May, Ireland following six months later, and officials keeping a nervous eye on Portugal and the first nation of significant size, Spain. For Greece, the eurozone and International Monetary Fund ponied up a rescue package of $150 billion, adding a just-in-case total of several hundred billion more for the entire area to calm the waters. Ireland received promises of $110 billion. Meanwhile, the Germans' austere response to salvaging its profligate euro-cousins had some observers mumbling about the sustainability and wisdom of the currency union as currently constituted.

Many analysts are concerned that the bailout packages may ultimately prove insufficient, in part because the demand among skeptical private investors for higher bond rates in those markets. The added austerity required to pay investors will further compromise their economies. Indeed, Pimco's head of European portfolio management, Andrew Bosomworth, suggested during an interview with German newspaper Die Welt in December that Greece, Ireland and Portugal will need to leave the eurozone temporarily to restructure their debts. Although a **Barclays Capital** global survey of 2,000 institutional investors showed confidence in the ability of the euro area to avoid a "full-fledged crisis," one in three still expects a eurozone country to either default or restructure debt in 2011 and another 60% expect additional European bailouts. The *Financial Times* wondered aloud whether the European Union's failure from the start to address "monetary union with fiscal union" undermines Europe's pledge "to do 'whatever is required' to combat the eurozone crisis."

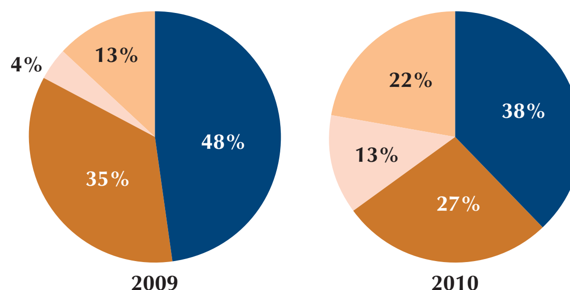
Under ordinary circumstances, the crisis-related debt might be managed over time through a mix of restrained austerity and accelerated economic growth. But with tens of millions of baby boomers preparing for retirement in those nations and expecting their just reward from the state, these same governments already face costs that appeared untenable prior to the financial crisis. In the U.S., the national fiscal nightmare is complicated by the apparently unsustainable health care and pension promises made to public employees on the state and local levels. Estimates of unfunded retirement liabilities range as high as $3 trillion for states and $600 billion for the largest U.S. cities.

As was the case with the dot-com and real estate bubbles — and among bailout recipients such as General Motors that began to resemble unsustainable social service agencies as much as they did industrial corporations — at some point financial reality sinks in. When it does, federal, state and local governments will have to make tough decisions on taxes and spending that will likely depress consumers and businesses alike. The reaction from an American citizenry that tends to appreciate entitlements and services but rejects the taxes required to pay for them may also turn ugly, with all that portends in the political arena.

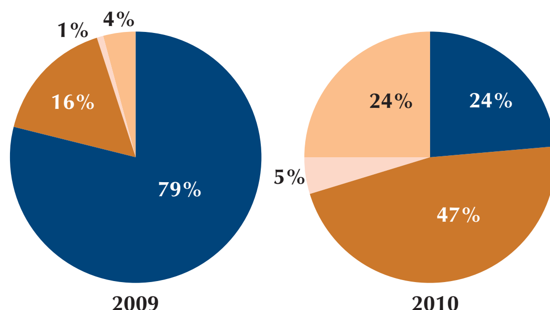
In November, a White House panel kicked off the reality check by recommending $3.8 trillion in federal

Who's Selling

Number of Transactions by Sector as % of Total



Value of Transactions by Sector as % of Total



Money Management
Wealth Management
Real Estate
Private Equity / Other

Source: Berkshire Capital Securities LLC

cuts by 2020, including the elimination of deductions on mortgages above $500,000. The politically dicey question of raising the retirement age for Social Security was managed by allowing for a decades-long transition culminating in the age of 69 by 2075. The plan was promptly attacked from both the left and the right over entitlements and taxes. But Erskine Bowles, panel co-chairman and former chief of staff to President Bill Clinton, emphasized to the Wall Street Journal that political action is required. "I guarantee if they don't do it now, five years from now when we look back and the crisis is upon us... people will think, 'How could we have been so foolish?'"

FOR DEALMAKERS FOCUSED ON SUPERIOR GROWTH AND PROFITABILITY, THAT WILL MAKE BOUTIQUE FIRMS WITH SPECIALIZED NICHES AND/OR SUPERIOR TRACK RECORDS OF PARTICULAR INTEREST.

Coming out of a financial crisis that shook confidence in traditional assumptions about long-term investing and the ability of active managers to divine the future, the asset management industry faces its own set of challenges. In the near term at least, margins are likely to remain under pressure as investors apply a greater percentage of their assets to passive investments. Demographics also threaten to work against profitability, as aging baby boomers maintain the recent crisis-driven tilt toward more conservative investments.

According to McKinsey's 2010 asset management survey, 64% of investible assets in the U.S. are now controlled by households falling into the age 55-and-up demographic, a number the consulting firm projects will reach 71% by 2020. This sea change will force asset managers to shift from a business model "still firmly rooted in accumulation mode" to one that focuses on "income generation and principal protection." McKinsey figures insurance companies, "with their large balance sheets and risk management expertise," could emerge as a major beneficiary.

For dealmakers focused on superior growth and profitability, that will make boutique firms with specialized niches and/or superior track records of particular interest for partial or full ownership. It will also drive many American asset managers in search of new markets, including Asia and Latin America. Affiliated Managers Group, something of a proxy for the sentiments of dealmakers, made three investments last year that all worked to expand its international exposure. JPMorgan Chase and **Evercore Partners** both invested in Brazilian asset managers. But the size, wealth and openness of the American market make it equally attractive for well-heeled financial firms from emerging markets, as was evidenced by the two U.S. investments made by India's ambitious Religare Enterprises.

A financial crisis that has already accelerated a shift in relative power between the industrialized world and the emerging markets of Asia, Latin America and Europe is therefore likely to accelerate the globalization of the asset management industry, with emerging players becoming more assertive as buyers and strategic partners.

Who's Buying

	2006	2007	2008	2009	2010
Money Management	31	30	48	34	**37**
Financial	18	22	28	16	**22**
Wealth Manager	24	38	29	23	**19**
Securities Firm	14	16	4	11	**17**
MBO	5	12	21	15	**13**
Bank	39	43	34	14	**11**
Real Estate Manager	6	14	2	5	**6**
Trust Company	6	4	7	8	**5**
Insurance Company	13	7	7	2	**5**
Other	11	18	19	7	**8**
Total	**167**	**204**	**199**	**135**	**143**

Source: Berkshire Capital Securities LLC

Money Management

As institutional investors endured the fourth calendar year since the start of the financial crisis in the summer of 2007, and cringing headlines reported the yawning gaps in public employee pension funds, there were clear signs of restiveness. Although public pension plans reported strong returns for the 2009 year, the continued actuarial pressure on the plans — not to mention the public purse — led some to squeeze their money managers on fees, which generally account for the single greatest expense. The largest such plan, the ***California Public Employees' Retirement System*** *(Calpers), reported it had saved $100 million in the fiscal year ending June 2010 as a result of renegotiated fees.*

Meanwhile, the state's second massive pension fund, the **California State Teachers' Retirement System** (Calstrs), is attempting to save by managing more of its money in-house, a strategy many other public funds are exploring as well. Numerous institutions are also shifting their equity allocations toward less expensive passive investment products. The **Employees' Retirement System of Rhode Island**, with more than $7 billion in assets, may be the most extreme example, having parked virtually its entire $4 billion global equity portfolio in index funds, according to its April 2010 report. U.S. institutions are also dabbling in exchange traded funds, with Greenwich Associates estimating that 14% of institutions are currently using these instruments, primarily for "tactical" reasons related to portfolio management.

The trend away from more profitable active equity investing isn't confined to the U.S. In the most recent FTfm survey of U.K. pension funds, the two leading managers ranked by AUM were passive investment firms, **Legal & General Investment Management** and **BlackRock**, with AUM up by strong double-digits at both firms in 2009. "We used to ask is there going to be a point where people start moving money back into active," researcher Stephen Birch told the Financial Times. "But it doesn't look likely." A survey by Feri Euro Rating Services indicated that among German institutions, European equity mandates made up half of the stated mandate cancellations. The Feri survey also showed that 25% of European institutional respondents plan to directly manage a larger share of their own assets.

The changes in the marketplace, including a decided preference among retail investors for more conservative and passive equity investments, were reflected in many of the money management deals last year, as buyers showed a marked interest in adding fixed income capabilities. But asset managers who counted credit-related instruments in their product portfolios also took the opportunity to bolster those capabilities via acquisitions. Broadly, dealmakers in the money management sector were reasonably active last year, recording 54 transactions valued at $5.1 billion. Buyers included such alternative investment heavyweights as **Blackstone Group, Carlyle Group, Fortress Investment Group** and **Guggenheim Partners**, along with traditional asset managers like **Charles Schwab** and **Federated Investors**.

The acquisition by Fortress Investment Group of fixed income institutional manager **Logan Circle Partners** was a clear sign of changing times, as alternative asset managers extend their businesses into traditional arenas. Private equity firms in particular are grappling with a more challenging fund-raising environment, as institutions express greater skepticism about the value of many of these investments. Logan Circle added $12 billion in fixed income investments to the $30 billion Fortress has in private equity and hedge funds. Fortress paid $21 million in cash and could make additional performance-based payments this year.

Money Management Transactions

	2006	2007	2008	2009	2010
Number of Transactions	49	62	77	65	**54**
Combined Value ($B)	$34.7	$15.1	$8.7	$25.1	**$5.1**
Total Seller AUM ($B)	$1,920	$718	$683	$3,011	**$357**
Average Deal Size ($M)	$708	$244	$113	$386	**$95**
Average Seller AUM ($B)	$39.2	$11.6	$8.9	$46.3	**$6.6**

Source: Berkshire Capital Securities LLC

A three-year-old joint venture between employees and Guggenheim Partners, Logan was formed via Guggenheim's lift-out from **Delaware Investments** of a team of fixed income managers, traders and marketers, along with $13 billion in AUM. In referencing the deal in its latest annual report, Fortress said expanding its investment offerings and "adding scalable platforms outside the alternative space will bring a new group

of investors to Fortress while diversifying earnings." Logan will retain its name and continue to operate in Philadelphia. In a separate diversification move, Fortress acquired 80% of **American International Group**'s interest in **American General Finance**, which provides loans, retail financing and other credit products to consumers. Fortress made three other acquisitions that added a total of $22 billion in credit-related assets *(see next column)*.

In a transaction between two Midwest firms, Kansas City-based **UMB Financial Corp**. acquired nearly $10 billion in fixed income AUM through the purchase of "substantially all" of Indiana-based **Reams Asset Management Co**., an institutional firm established in 1981. The deal was done through UMB's asset management arm, **Scout Investment Advisors**, which has an equity focus. In explaining the deal, UMB president and chief operating officer Peter deSilva described fixed income investments as "a key strategic growth area in the institutional asset management business" while Reams alluded to "recent global economic conditions" driving institutions to seek "service providers that have a strong parent like UMB." In the five years through 2009, AUM at UMB rose 68% to $12.4 billion. As part of an effort to expand its mutual fund and institutional businesses, in 2009 UMB created Scout Distributors to market Scout funds.

UMB FINANCIAL CORP. ACQUIRED NEARLY $10 BILLION IN FIXED INCOME AUM THROUGH THE PURCHASE OF "SUBSTANTIALLY ALL" OF INDIANA-BASED REAMS ASSET MANAGEMENT CO.

Congress Asset Management of Boston enhanced its fixed income offerings through the acquisition of a neighboring asset manager, **Prelude Asset Management**. Prelude adds $1.2 billion in fixed income institutional AUM to the $5.2 billion in equity and fixed income assets Congress already managed. Congress, an institutional and wealth management firm founded in 1985, said the merger "is intended to provide an expanded fixed income team with additional portfolio management and research depth." Federated Investors added to its massive money market offerings through the acquisition of $17 billion in such instruments from the **RidgeWorth Capital Investments** unit of **SunTrust Banks**. The assets were wrapped into existing Federated money market funds with similar investment objectives. In 2008, Federated picked up more than $12 billion in distressed money market assets from **Putnam Investments**. Federated, whose money market-driven business benefitted from massive inflows during the financial crisis, saw a reversal of that trend between the second quarters of 2009 and 2010, with money market AUM declining $86 billion and overall AUM off $65 billion.

Two years after the collapse of Lehman Brothers and the financial meltdown, several asset managers sifted through the ruins to enhance their credit-related offerings. Indeed, amid a generally risk-averse marketplace, investors did begin wagering money again in the quest for yield. Global junk bond issuance doubled in the first three quarters of 2010 versus 2009, to reach an annual record of $209 billion. The spread between junk and investment grade bonds also narrowed substantially from the height of the financial crisis, while prices on U.S. junk bonds topped 100 on average last September — an indicator of demand as well as confidence about repayment. And, indeed, Moody's Investors Service reported that the junk bond default rate was expected to dip below 3% by the end of 2010, nearly 12 points below the level reached in the fourth quarter of 2009.

The leveraged loan market also rebounded from a 2008 low, with prices recovering in tandem, while the associated collateralized loan obligation (CLOs) market began showing signs of life. Meanwhile, in the U.K., government-owned **Royal Bank of Scotland** embarked on a road show last September to hawk the sale of more than $7 billion in mortgage-backed securities — the largest such offering since the financial meltdown. At the same time, South African-based bank **Investec** brought to European investors nearly $400 million in mortgage-backed securities that included subprime loans, the first such security in Europe since the credit crisis began.

Fortress Investment cut three credit-related asset management deals in addition to its purchase of Logan Partners, including the purchase of **CW Financial Services**, one of the largest special servicers for commercial and multifamily real estate debt, with a portfolio that includes more than $12 billion in AUM. Fortress said its "global capabilities in real estate, credit and structured finance" combined with CW's diverse capabilities "result in a unique capacity to participate in, and benefit from, the real estate market's recovery and reconstitution." Boston-based CW was majority-owned by **Otera Capital**, a unit of Canadian pension fund manager **Caisse de depot et placement du Quebec**.

Blackstone Group, which two years ago acquired a major credit asset manager, **GSO Capital Partners**, purchased the collateral management agreements for CDO and CLO funds managed by **Callidus Capital Management**, a unit of **Allied Capital Corp**. (itself acquired last year by finance company **Ares Capital**). The Callidus funds, amounting to $3.2 billion in AUM and primarily consisting of leveraged loans and high-yield bonds, will be managed within the GSO Capital unit and enhanced Blackstone's position as one the largest managers of credit-related assets. GSO had $24 billion in AUM prior to the deal. "This transaction represents the execution of one of our key strategic initiatives to further scale our CLO franchise and

capitalize on the strength of our investment process and infrastructure," said Bennett Goodman, senior managing partner of GSO.

Carlyle Group was the third major alternative asset manager to scoop up credit-related assets last year, acquiring the collateral management contracts for 11 CLO funds managed by **Stanfield Capital Partners**, as well as the investment management agreements for three of Stanfield's separate accounts. The deal adds $5.1 billion in credit-related AUM to the $13 billion Carlyle already managed. Calling scale "critical to the CLO business," Carlyle noted that the addition of Stanfield's assets makes it one of the world's largest structured credit managers and "an industry consolidator." Stanfield CEO Dan Baldwin called its decision to sell "a very difficult one" but noted that investors in a "consolidating" credit marketplace are seeking "firms that possess the broad array of resources found at large global asset managers."

Commercial Industrial Finance Corp. added scale to its portfolio of CLOs with the purchase of **CypressTree Investment Management**, which manages or subadvises $2.8 billion in high-yield and leveraged loan assets. CIFC had $3.6 billion in CLO assets prior to the deal. CypressTree was acquired in 2009 by credit asset manager **Primus Guaranty**, but in making the divestiture Primus said "CLO management is no longer a core business." An additional credit deal of note involved **Deerfield Capital Corp.**,'s acquisition of **Columbus Nova Credit Investment Management**, which manages $1.8 billion in CLO assets. Deerfield paid $25 million plus an additional $7.5 million over five years for Columbus, owned by New York asset manager **Renova U.S. Management**.

Prior to the transaction, Chicago-based Deerfield managed $4 billion in CLO assets and $9 billion overall. As part of the deal, a Renova investment vehicle agreed to purchase $25 million worth of Deerfield's convertible notes, the proceeds from which will be used to help retire $74 million in debt. In addition to enhancing its AUM and revenue growth, Deerfield said the deal allows it to strengthen its balance sheet and add "a valuable partner in Columbus Nova." Nine months later in December, Deerfield announced a merger with Commercial Industrial Finance Corp. The combined firm will have $15.6 billion in AUM, primarily in CLOs, making it one of the world's largest structured credit and leveraged finance asset managers.

The exchanged traded funds arena generated several deals, the most significant involving Charles Schwab's $150 million stock-and-cash purchase of **Windward Investment Management** (AUM: $4 billion). Based in Boston and founded in 1994, Windward has generated 56% compound annual growth in AUM over the last five years, with assets managed in conservative, growth and aggressive-growth portfolios of ETFs. Woodward's traditional client list of high net worth individuals and institutions will be expanded to incorporate Schwab's retail customers.

Guggenheim Partners picked up more than $5 billion in ETF assets as well as retirement products and mutual funds via its purchase of **Security Benefit Corp.** Guggenheim, which will invest $400 million in Security Benefit as part of the deal, was joined by investors who included Guggenheim shareholders. Guggenheim managing partner Todd Boehly said the transaction will allow his company to "accelerate Security Benefit's growth given the marketplace's increasing demand for robust retirement programs and investment strategies." Kansas-based Security Benefit gained the ETFs and alternative products via its 2007 acquisition of Rydex Investments, which has a total of $20 billion in AUM. In 2009, Guggenheim also added some $3 billion in ETF assets through its acquisition of **Claymore Group**.

In a third transaction involving ETFs, **Deutsche Bank** acquired the target-date ETF business of New York's **XShares Advisors** *(see Cross Border for more information)*. In a deal involving a private equity firm, **Flexpoint Ford** became the third-largest shareholder in **WisdomTree** by acquiring the 7% ownership of **American International Group**. WisdomTree, a New York-based ETF sponsor and asset manager, saw its AUM jump 64% between the third quarter of 2009 and 2010, to $8.9 billion. In October, the company also announced an agreement with Mexico's **Compass Group** to distribute WisdomTree ETFs throughout Latin America. Flexpoint, based in New York and Chicago, targets the financial services and healthcare industries and has $1 billion under management.

In the more traditional funds arena, **Nuveen Investments** acquired the **FAF Advisors** mutual fund business for $80 million in cash and the assumption by FAF parent **U.S. Bancorp** of a 9.5% shareholding in Nuveen. The FAF business added $25 billion in AUM, primarily in the **First American Family** funds business, to the $150 billion Nuveen already managed. Nuveen, the largest manager of closed-end funds, said the deal merges its specialty in municipal bonds with FAF's "proven and distinct investment capabilities, including taxable fixed income, real assets, equities and asset allocation." Additionally, Nuveen said the transaction "will further enhance" its

THE EXCHANGED TRADED FUNDS ARENA GENERATED SEVERAL DEALS, THE MOST SIGNIFICANT INVOLVING CHARLES SCHWAB'S $150 MILLION STOCK-AND-CASH PURCHASE OF WINDWARD INVESTMENT MANAGEMENT.

"multi-boutique model" consisting of seven branded asset managers, including **NWQ Investment Management** and **Winslow Capital**. The deal also cements for Nuveen a distribution relationship with the nation's fifth-largest commercial bank. U.S. Bancorp said it did not have the scale as an asset manager to build the FAF business and cited the benefits the alliance would offer to customers

THE CONSOLIDATION TREND IN CANADA'S ASSET MANAGEMENT INDUSTRY CONTINUED APACE.

in its wealth management business. In 2007, Nuveen was acquired by **Madison Dearborn Partners** in the largest asset management deal to date by a private equity firm ($6.3 billion, including assumption of debt).

Affiliated Managers Group tackled the market last year to cut three deals that expanded its international capabilities, including one U.S.-based target that specializes in emerging and global markets investments, **Trilogy Global Advisors** (AUM: $12 billion). Based in Florida and New York and started up in 1999, Trilogy manages $12 billion in assets for institutions and retail customers in the U.S., Europe and Asia-Pacific. AMG chairman and CEO Sean Healey said he continued to see "substantial opportunities" for deals for traditional and alternative firms, "increasingly characterized by succession-driven transactions." In keeping with AMG's affiliate model, Trilogy management will retain a "substantial portion" of equity while "reinvesting a significant portion of the transaction proceeds into Trilogy products." *(For additional AMG deals, see Cross Border and Alternatives.)*

Evercore Partners paid $69 million (with a potential earnout payment of $14.7 million) for a 49% stake in **Atalanta Sosnoff Capital**, one of two asset management deals the New York investment bank concluded last year. Atalanta, also based in New York, manages $10 billion in assets for institutions and high net worth clients and has a large-cap and balanced-investment orientation. Founded in 1981, the firm's AUM has grown fivefold since 2002. In an interview last May with Pensions & Investments, Evercore president and CEO Ralph Schlosstein called Evercore's asset management business "a $5 billion collection of early-stage businesses" that will be enlarged through acquisitions, but noted that Evercore will operate with "very tough standards" and seek partnerships in which managers "own a significant piece of equity." Together with Larry Fink, Schlosstein co-founded **BlackRock** in 1988.

In smaller U.S. deals, **TIAA-CREF** acquired a "controlling interest" in **Westchester Group**, an agricultural asset manager that extends TIAA's capabilities in that arena. Based in Illinois and founded in 1986, Westchester manages more than $400 million in assets for institutions. **RS Investments** of San Francisco acquired North Carolina's **Oak Value Capital Management**, with $195 million in mutual fund assets. The company's flagship Oak Value fund was subsequently rebranded under the RS name. Oak Value, founded in 1986, said the deal will allow it to "focus exclusively" on investment management while benefitting from RS' scale. RS is majority owned by **Guardian Life Insurance**. In a deal between two Chicago firms with past ties, **Dearborn Partners** added small-cap capabilities with the acquisition of **Third River Capital**. In a transaction between two St. Louis firms, **Stifel Financial Corp**. bought **Missouri Valley Partners**, an institutional manager with $800 million in AUM that was owned by **First Banks, Inc**.

The consolidation trend in Canada's asset management industry continued apace, with **Scotiabank**'s $2.3 billion purchase of the 82% of **DundeeWealth** (AUM: $42 billion) it did not already own. The cash-and-shares deal — the largest asset management transaction of 2010 — makes Scotiabank the fifth-largest mutual fund manager in Canada and further depletes the domestic ranks of independent asset managers. Dundee adds $31 billion in its **Dynamic** line of funds to the $24 billion Scotiabank already managed under its brand name, giving the combined business nearly an 8% share of the funds market. Dundee, whose overall AUM jumped 27% in the year through September 2010, also adds third-party distribution capabilities. Rick Waugh, Scotiabank president and CEO, said the deal "demonstrates our strong commitment to build our wealth management presence in Canada." Scotiabank, which also has a large minority interest in Canadian mutual fund giant **CI Financial**, made two other deals last year, acquiring Ontario-based multifamily office **WaterStreet Group** and the Panamanian wealth business of **BNP Paribas** *(see Wealth Management)*.

In a deal between two independent Canadian asset managers, **Fiera Capital** and **Sceptre Investment Counsel** merged to create a new publicly traded company with $30 billion in AUM (about three quarters from Fiera). The $71 million transaction involved a share swap that left Fiera Capital with 60% of the new company, **Fiera Sceptre**. SIC said the deal "leverages the strengths of both companies to create a significant player in the investment management sector." SIC, which had been a public company for 24 years, ran a family of eight mutual funds and had a largely institutional focus, along with a high net worth business. In recent years, the company had been dogged by performance issues and redemptions, as well as succession issues following the death of its CEO in 2009. Fiera, which was privately held, also targets the institutional marketplace. In a third all-Canada deal, **IGM Financial** wealth unit **Investment Planning Counsel** acquired **Partners in Planning**, a financial services firm that operates a mutual fund business.

Within the U.K., there were two significant domestic deals, both of which targeted firms with traditional and alternative fund businesses. At the start of the year, **Aberdeen Asset Management** paid $130 million for Royal Bank of Scotland's asset management unit, which had two-thirds of its $20 billion in AUM in long-only multi-manager funds and 30% in funds of hedge funds. In the near term at least, the acquired alternatives business took a hit, suffering net outflows of $800 million over the summer, while Aberdeen's overall AUM rose slightly.

Aberdeen, which in 2008 added to its large property funds unit with the acquisition of London's Goodman Property Investors, has been seeking to round out its portfolio with a hedge fund business, driven by CEO Martin Gilbert's conviction that the investments have solid growth prospects. As part of the transaction, RBS agreed to provide Aberdeen preferred access to its wealth management network, including the venerable British private bank, **Coutts & Co.** Bruce Van Saun, chief financial officer of government-owned RBS, called the deal "another step in our plan to restructure [the bank] around its core customer franchises." To help pay for the transaction, Aberdeen did a share placement equivalent to more than 8% of its ordinary share capital.

In the second deal between London-based asset managers, **F&C Asset Management** acquired **Thames River Capital**, which offers a mix of traditional, specialty and alternative funds and manages $6.4 billion in assets. F&C paid $50 million, a price that could reach $80 million based on performance. F&C chief executive Alain Grisay called the deal "an important component of our strategy of diversifying our revenues beyond our core insurance clients" while citing Thames Rivers' "highly complementary set of investment capabilities, including expertise in absolute return." Thames Rivers' products also deliver superior profitability, with F&C noting the company's "average net management fee margin" in 2009 of 90 basis points of AUM compared with its own 22 basis points.

Prior to the deal, the majority of F&C's $160 billion in AUM was in fixed income assets while 60% was managed for the insurance industry, a legacy of its former parent, insurer **Friends Provident**. In 2009, Friends Provident distributed its majority stake in F&C to shareholders, leaving the firm as an independent, publicly traded asset manager. Thames River, founded in 1998, manages a broad portfolio that includes global credit funds, fixed income, equities, property, multi-manager hedge funds and niche funds such as the **Water & Agricultural Absolute Return Fund** (AUM: $38 million).

Wealth Management

*For the second year in a row, the number of transactions in the wealth management sector remained modest at just 39 and included just two major deals, the most significant of which involved **M&T Bank Corp**.'s acquisition of **Wilmington Trust** (the second saw South Africa's **Investec** add to its large minority stake in London's **Rensburg Sheppards**; see Cross Border). As was the case with several significant deals in 2009, M&T Bank's purchase of Wilmington Trust was driven by the financial crisis, as the venerable Delaware-based bank and wealth manager fell victim to a balance sheet weighed down by souring construction loans.*

M&T Bank, of Buffalo, NY, with 750 branches across seven states, picked up Wilmington for what was largely considered a bargain price of $351 million in stock — a value nearly 50% below the bank's share price just a few days prior to the announcement. That announcement coincided with Wilmington's large writedown on its loan portfolio and a third-quarter loss of $365 million, the sixth consecutive quarterly loss. In addition to the troubled banking business, M&T gains one of the best-known names in wealth management: Wilmington was started in 1903 by the du Pont family and has $27 billion in AUM in its wealth business, which targets individuals with $10 million or more in investible assets.

Outside its wealth advisory unit, Wilmington has another $31 billion in AUM, including a mutual funds line and

Wealth Management Transactions

	2006	2007	2008	2009	2010
Number of Transactions	65	87	80	47	**39**
Combined Value ($B)	$7.2	$11.6	$5.6	$5.2	**$9.9**
Total Seller AUM ($B)	$284	$227	$388	$246	**$518**
Average Deal Size ($M)	$111	$133	$70	$111	**$254**
Average Seller AUM ($B)	$4.4	$2.6	$4.9	$5.2	**$13.3**

Source: Berkshire Capital Securities LLC

assets managed at two affiliates: value investor **Cramer Rosenthal McGlynn** and growth manager **Roxbury Capital Management**. Calling Wilmington "a big upgrade and addition to what we do," M&T president Mark Czarnecki told the Buffalo News, "We wanted as a bank to diversify our sources of fee income, and Wilmington gives us the chance to do that." M&T, with a branded lineup of mutual funds and a trust business, has $22 billion in AUM. On a pro forma basis, M&T said its fee income as a percent of total revenue will jump five points to 39% while the trust and wealth management component of its fee income business will more than double to 34%.

BNY Mellon expanded its Canadian wealth business with the acquisition of Toronto-based **I(3) Advisors** (AUM: $3.4 billion). BNY Mellon called the deal part of the effort to "accelerate our global expansion and seize new opportunities in dynamic markets." In an interview with Reuters following the acquisition, the new head of BNY Mellon's wealth division, Lawrence Hughes, said his group will continue to pursue acquisitions in markets where the company has an existing presence. The wealth division accounts for around a quarter of the revenue generated by BNY Mellon's asset management business. I(3) was started by Ernst & Young in 2005. In a second and smaller North American cross border deal, **Wunderlich Securities** of Memphis acquired five of **RBC Wealth Management**'s Michigan branches to expand its presence in that state, adding $700 million in assets under administration. Wunderlich, founded in 1996 and partly owned by Norway's **Coil Investment Group**, serves private clients as well as institutions and has $3.8 billion in AUM. RBC Wealth is part of **Royal Bank of Canada**.

Regional and local financial services firms, which have been eyeing wealth management as a way to diversify and strengthen earnings, were again represented among buyers last year. In a deal between two Philadelphia firms, financial services firm **Drexel Morgan & Co.** enhanced its wealth capabilities with the acquisition of **McCabe Capital Managers**. The deal adds $1.3 billion in AUM and another $500 million under advisement to the $6 billion Drexel already managed. The company said it will benefit from McCabe's "longstanding relationships" with global asset managers and expertise in international and alternative investments. McCabe will operate as an independent division. Memphis-based **Strategic Financial Partners** extended its Southern presence via the acquisition of **Pittman Financial Services**, an established wealth manager in Birmingham, Ala., that also has an office in Florida. Strategic Financial had $750 million in AUM prior to the deal.

REGIONAL AND LOCAL FINANCIAL SERVICES FIRMS, WHICH HAVE BEEN EYEING WEALTH MANAGEMENT AS A WAY TO DIVERSIFY AND STRENGTHEN EARNINGS, WERE AGAIN REPRESENTED AMONG BUYERS LAST YEAR.

The largest such regional wealth deal involved two Kansas City-based firms, as **UMB Financial Corp.** acquired **Prairie Capital Management**, which manages more than $4 billion for high net worth individuals and institutions. UMB, which last year also acquired institutional manager **Reams Asset Management Co.** *(see Money Management)*, said the transaction reflects its "strategic focus" on the wealth arena and praised Prairie for its expertise in a range of asset classes and "unique access to many leading global investment managers." Prairie, whose owners included Kansas City investment bank **George K. Baum Holdings**, will operate as an independent division within UMB.

Portland, Ore.-based insurer **StanCorp Financial Group**, which targets the "mass affluent" market, acquired two small Indianapolis firms, **Redwood Investment Advisers** and **Webb Financial Advisers**, in the process climbing above the $1 billion mark in AUM. In a transaction between two independent suburban Chicago firms, **Forum Financial Management** merged with **Pinnacle Wealth Management** to create a wealth manager with more than $500 million in AUM that operates under the Forum name. The deal was driven by the demands of scale and succession-planning issues. **Rehmann Financial**, a sizable Saginaw, Mich.-based accounting, consulting and wealth management firm, acquired two Cleveland wealth managers, **Cotter Advisory Group** and **Dawson Wealth Management**, adding a total of $400 million in AUM to the $1 billion it already managed. In explaining the decision to sell, Dawson CEO D. Michael Sherman said that in addition to Rehmann's "strong wealth management division," its new owner provided "a full range of tax, accounting, assurance and business consulting services." Rehmann said it will seek wealth management acquisitions elsewhere in the U.S.

Boston-based wealth manager **Silver Bridge** extended its footprint into the San Francisco area via its first acquisition, of **H&S Financial Advisors**, with which it had an existing client-based relationship. The deal adds around $400 million in assets under advisement to the $1.6 billion Silver Bridge already handled. Simultaneously, Silver Bridge announced it would launch **Silver Bridge Family Office Partners** "exclusively for the needs of complex and sophisticated families and family offices." In another transaction involving West Coast expansion, **Northern Trust** acquired **Waterline Partners** (AUM: $800 million) of Los Angeles.

Sanders Morris Harris Group of Houston cut two

small deals, paying up to $1 million for 51% of **Investor Financial Solutions**, a California wealth manager with $110 million in AUM; and acquiring 50.1% of Houston's **Global Financial Services**, with $4 billion in assets. Publicly traded SMH has been transitioning to a pure wealth management firm focused on both the mass affluent and high net worth markets, having shed its investment banking arm at the end of 2009. The business is driven by majority-owned **Edelman Financial Services**, which added seven new branches last year in four major metropolitan areas and was named by Barron's the top independent financial advisor in the U.S. Dallas-based **Westwood Holdings Group** expanded into the Midwest through the acquisition of an Omaha, Neb.-based wealth and institutional manager, **McCarthy Group Advisors** (AUM: $1 billion). Westwood called the Omaha area a "vibrant market" while McCarthy cited the benefits of "expanded investment opportunities" for its clients and the internal need for a succession plan. Publicly traded Westwood has seen its AUM double over the last five years to $10.6 billion, with about $2 billion of that in its private wealth business.

FOCUS FINANCIAL PARTNERS OF NEW YORK ACQUIRED A STAKE IN BRIDGEWATER WEALTH & FINANCIAL MANAGEMENT, BRINGING TO 19 THE NUMBER OF AFFILIATED COMPANIES IN ITS PORTFOLIO.

Focus Financial Partners of New York acquired a stake in **Bridgewater Wealth & Financial Management** of Maryland, bringing to 19 the number of affiliated companies in its portfolio. In a related deal, Focus affiliate **Buckingham Family of Financial Services** acquired **Wealth Management Consultants** (AUM: $400 million), a 20-year-old Northern California firm. Buckingham, based in St. Louis, said the deal presented an opportunity for geographic expansion, among other benefits. A frenetic presence in the wealth acquisition column for several years after its founding in 2006, Focus hit a financial speed bump for most of 2009 as a result of the economic crisis. An infusion of $50 million in late 2009 from two investment firms, including original investor **Summit Partners**, placed Focus on firmer footing and is allowing it to pursue acquisitions again. The addition of Bridgewater (AUM: $200 million) extends Focus' footprint into the Mid-Atlantic region.

One financial services firm, **Harleysville National Corp.**, divested a local wealth manager, **Cornerstone Companies**, via a management buyout. An established company, Cornerstone has $2.8 billion in AUM and was acquired by HNC in 2006. HNC, which was itself acquired last year by **First Niagara Financial Group**, retained its **Millennium Wealth Management** unit, with some $700 million in AUM. John Koelmel, president and CEO of First Niagara, told Pittsburgh Business Times last year that his bank is "very much focused" on expanding its wealth business.

Outside the U.S., **Scotiabank**, which last year merged its domestic and international wealth management and insurance businesses, acquired Ontario-based multifamily office **WaterStreet Group** and **BNP Paribas**' Panamanian wealth business, including operations in the Grand Cayman and Bahamas. The Canadian bank, which derives the largest proportion of its international revenues from Latin America, said the BNP deal "will enhance [its] existing operations" in those markets. BNP has been under pressure from the French government to exit nontransparent financial markets. Last year, BNP combined its existing private banking operations with those acquired from Fortis. Scotiabank called WaterStreet "the anchor for the expansion" of its ultra high net worth business. WaterStreet, formed in 2006, will continue to operate under its name. Scotiabank also made a $2.3 billion acquisition of mutual fund provider **DundeeWealth** *(see Money Management)*.

As part of the effort to reorganize its government-salvaged business, **Commerzbank** continued to sell off its international private banking operations, adding **Dresdner Bank Monaco** (AUM: $320 million) to the long list of 2009 divestitures. For Lebanese buyer **Bank Audi sal-Audi Saradar Group**, the deal expands an existing presence in Europe that includes offices in Switzerland and France. Bank Audi, the largest in Lebanon, said the acquisition is in line with its "strategy to develop its private banking activities in Europe." In a German domestic deal, **Spudy & Co. Family Office** took a majority stake in **Dottinger/Straubinger**, creating a firm with $6 billion in AUM and offices in Hamburg and Munich.

Publicly traded securities firm and asset manager **Collins Stewart** acquired two private client firms through its wealth management unit, including Guernsey-based **Corazon Capital Group** (AUM: $570 million). The London-based firm said the deal bolsters its leading wealth management position in the Channel Islands while strengthening its office in Geneva, where Corazon also has a presence. In a second deal, Collins Stewart paid an initial $7.5 million in cash and shares for **Andersen Charnley**, a London private client firm targeting "the upper end of the high net worth market." Collins Stewart, which could pay an additional $12 million in revenue-based incentives, said the deal was driven in part by Andersen Charnley's financial planning capabilities. With the two acquisitions, Collins Stewart has nearly $10 billion in assets under management and administration and is aiming to reach $15 billion by 2012.

Cross Border

*The transatlantic pipeline generated several notable deals while continental Europeans continued to cherry pick local targets and global firms teamed up with partners in China and India. If an analysis by **State Street** has merit, Europe may prove to be a center of activity in the years ahead.*

In a report on the $17.7 trillion European asset management industry released last September, State Street opined that the financial crisis is forcing an "end game" that over the next five years will see the "pursuit of scale through mergers and acquisitions." The primary targets will include asset managers divested by banks and specialist firms, with the mergers resulting in companies built on "low-cost, scalable business models" or "stables of boutique managers."

The European Commission's new UCITS IV (Undertakings for Collective Investments in Transferable Securities) "master-feeder structure" could also propel deals as asset managers begin to create large "feeder" funds from the investments currently limited to individual European Union markets. Alpha Financial Markets Consulting of the U.K. estimates that the master-feeder structure could generate annual savings for asset managers of $2.8 billion to $4 billion. The pan-European UCITS funds have assets of $7.6 trillion.

Last year, the most significant cross border transactions worldwide took place in the U.K. and involved three non-European buyers: Boston's **Affiliated Managers Group** (AMG), South Africa's **Investec** and **Royal Bank of Canada**. Overall, there were 37 cross border transactions in 2010 valued at $5.9 billion, a bump up from a quiet 2009 but below the more robust levels of 2007-2008.

The larger of the two AMG deals involved the $775 million cash acquisition for 85% of **Pantheon Ventures**, one of the world's largest private equity fund of funds managers, with $22 billion in AUM (invested about equally in Europe and the U.S., with a small portion in Asia). The transaction is the largest in AMG's acquisitive 17-year history, with a final price tag that could reach $1 billion depending on Pantheon's five-year performance; it also adds private equity funds to the company's portfolio. AMG president and CEO Sean Healey called private equity a "core element of institutional investors' overall asset allocation" and the fund of funds structure attractive "given the stability and consistency of its revenue stream, as well as the scalability of its investment platform."

Pantheon was owned by **Northwestern Mutual Life Insurance's Russell Investments** asset management unit, which has been shedding its alternative investment business but will continue to distribute Pantheon products. For management at Pantheon, an independent firm from 1988 to 2004, the AMG model provides a coveted equity stake (15%). In a reference to its years as a private company, Pantheon's global secondaries chief Elly Livingstone told Private Equity International that the new ownership structure harkens back to that earlier "partnership structure" while creating "a mechanism for recycling equity for the next generation." The private equity fund of funds industry has faced challenging times since the start of the financial crisis, with fund-raising off sharply from the 2007 peak.

The second deal involved another London firm, **Artemis Investment Management**, a 13-year-old fund manager with $16 billion in AUM, primarily in retail mutual funds, as well as segregated institutional accounts, hedge funds and a venture capital trust. Driven by a proprietary quantitative system known as "SmartGarp," Artemis funds delivered strong results during the bull markets of the last decade but have underperformed in recent years. AMG took a majority stake in Artemis, which, like Pantheon, started life as a private firm that ultimately was swallowed up by several banks in a rolling series of mergers, most recently **BNP Paribas**. Management at Artemis retained a stake of more than 25%, according to *FT Adviser*, a holding that Artemis chief executive Mark Tyndall said "will allow us to continue to attract and retain talented staff and to

Cross Border Transactions

U.S. - International	2006	2007	2008	2009	2010
Number of Deals	24	19	22	8	**17**
Value ($B)	$8.3	$5.6	$0.9	$1.4	**$3.9**
International - International	**2006**	**2007**	**2008**	**2009**	**2010**
Number of Deals	24	44	38	13	**20**
Value ($B)	$1.4	$6.1	$3.3	$3.2	**$2.0**
Total	**2006**	**2007**	**2008**	**2009**	**2010**
Number of Deals	48	63	60	21	**37**
Value ($B)	$9.7	$11.7	$4.3	$4.6	**$5.9**

Source: Berkshire Capital Securities LLC

develop our business in the best interests of our clients."

With the two acquisitions, global equity and alternative products make up nearly two-thirds of AMG's earnings. A third U.S.-based deal for emerging and global markets specialist **Trilogy Global Advisors** (AUM: $12 billion) further extended AMG's exposure to international equities strategies *(see Money Management)*. Meanwhile, BNP Paribas was involved in a second cross border divestiture involving a management buyout of its Atlanta-based growth equity manager, **Montag & Caldwell**. Founded in 1945, Montag has $14 billion in AUM in mutual funds and separate accounts for individuals and institutions. Like Artemis, Montag & Caldwell ended up in BNP's arms after the French bank joined the consortium that acquired and then split up former Montag parent **ABN Amro** in 2007.

Royal Bank of Canada's $1.5 billion cash acquisition of publicly traded **BlueBay Asset Management** was testament to the global ambitions of that nation's largest bank and the more generalized strength of Canadian banks, which avoided the subprime excesses of their neighbors to the south. It also followed the bank's announcement in September 2010 that it had split its international wealth management business into separate U.K. and emerging markets units. Founded in 2001, BlueBay manages $40 billion in assets for institutions and high net worth individuals in long-only and alternative European and emerging markets fixed income products. The company's niche has served it well in the current environment, as it generated $10.2 billion in net inflows during the 2010 financial year (ended June). The largest single fund is the long-only and European-focused BlueBay Investment Grade Bond Fund (AUM: $14 billion).

RBC said the acquisition enhances its position as a "top-10 global wealth manager" by adding complementary products, a partner with a track record for innovation, and distribution muscle in Europe and Japan. RBC paid a 29% premium over BlueBay's share price and approximately 19 times projected 2011 earnings. George Lewis, group head of RBC's wealth unit, said the acquisition "aligns" with the bank's "view that the wealth management segment will continue to grow at a faster pace than other parts of the global financial services industry." For its part, BlueBay said the deal provides scale while offering operational and investment independence. In 2008, RBC made another billion-dollar deal when it acquired **Phillips, Hager & North Investment Management**, one of Canada's largest independent asset managers at the time.

The last major cross border transaction in the U.K. involved Investec's $600 million purchase of the 53% of London's **Rensburg Sheppards** it did not own, via a share swap, with the price representing a 48% premium to Rensburg's stock price. The deal completed a partnership the two firms began in 2005, when Investec took a 47% stake as part of a transaction involving the sale of its U.K. private client firm, Carr Sheppards Crosthwaite, to Rensburg. Stephen Koseff, CEO of Investec, called full ownership "the natural next step for both businesses" while Rensburg cited ownership "clarity." Rensburg has $18 billion in funds under management. Investec is South Africa's fifth-largest bank and third-largest asset manager.

Cross Border Transactions by Domicile and Type

2009	Buyer: U.S. / Seller: International	Buyer: International / Seller: U.S.	Buyer: International / Seller: International	Total
Wealth Management	0	1	5	**6**
Money Management	2	2	6	**10**
Other	3	0	2	**5**
Total	**5**	**3**	**13**	**21**

2010	Buyer: U.S. / Seller: International	Buyer: International / Seller: U.S.	Buyer: International / Seller: International	Total
Wealth Management	2	0	2	**4**
Money Management	3	2	10	**15**
Other	**5**	5	8	**18**
Total	**10**	**7**	**20**	**37**

Source: Berkshire Capital Securities LLC

Brussels-based private equity firm **RHJ International** followed up on its $370 million acquisition of U.K. private bank **Kleinwort Benson** in 2009 by paying $29 million for the Dublin-based asset management business of Belgian financial services firm **KBC**. The Irish business manages $5.6 billion in assets for global institutions, with a focus on dividend-paying and environmentally oriented equities, as well as multi-asset strategies — areas that RHJ said have "strong growth prospects." RHJ said the acquisition, which nearly doubled its AUM, is part of a strategy to build a wealth management and advisory business under the venerable Kleinwort name.

In a second deal in Ireland, **State Street Global Advisors**

acquired the asset management unit of **Bank of Ireland**, which is restructuring its business as part of a government bailout. The $80 million acquisition nets SSgA $36 billion in AUM in a broad mix of actively managed funds for institutions and intermediaries. SSgA primarily manages passive funds for institutions. The company said the addition of **Bank of Ireland Asset Management** fits with its clients' demands "for more solutions-driven investment management strategies that span the risk spectrum." In a second transaction involving a government-induced divestiture by an Irish bank, **Banco Santander** acquired **Allied Irish Banks**' 50% interest in **Bank Zachodni WBK AIB Asset Management** of Poland. Banco Santander paid $210 million for the business (AUM: $3.6 billion) as part of a larger $3.7 billion deal involving the purchase of AIB's majority share in **Bank Zachodni WBK**, a retail and commercial bank. The asset management business is expected to account for around 6% of the Polish bank's net profit in 2011.

TORONTO-BASED FORESTERS ACQUIRED NEW YORK'S FIRST INVESTORS CONSOLIDATED.

Deutsche Bank was involved in three cross border deals, including a management buyout of its New York-based quantitative firm, **QS Investors** *(see Alternatives)*. The acquisition also took place in New York, with the German bank picking up five target-date exchange traded funds (ETFs) from **XShares Advisors**, with $140 million in AUM. XShares was founded in 2005 but struggled for much of its brief life, having liquidated nearly two dozen specialized ETFs heavily weighted toward health care. Following the Deutsche Bank deal, parent company XShares Group changed its name to **BNDRE Holdings** and said it would focus on the U.S. distressed real estate market. A third deal saw Deutsche Bank take a 49% stake in New Zealand's **Craigs Investment Partners**, which has brokerage, asset management and wealth management businesses. In 2009, Craigs management bought the 50% stake owned by **Royal Bank of Scotland** (which RBS acquired from ABN Amro in 2007).

Macquarie Group of Australia acquired the Austrian asset management business of German electronics, energy and health care giant Siemens AG, **Innovest Kapitalanlage AG**. The Vienna-based business manages approximately $5 billion for institutions in Germany and Austria, including the Siemens pension fund, with a specialization in risk-budgeting and asset allocation strategies. Macquarie said the deal provided "a new hub for Macquarie Funds Group in Central Europe — consistent with Macquarie's strategy to develop a global asset management firm."

Aviva Investors of the U.K. crossed the Atlantic to make its first acquisition since its formation in 2008 by insurance giant and parent Aviva, buying value investor **River Road Asset Management**. River Road, based in Louisville and founded in 2005 with $30 million in AUM, manages $3.6 billion for institutions, its growth fueled in part by the distribution muscle of former minority shareholder ABN Amro. River Road, which bought out that minority interest to become a fully employee-owned company in 2008, cited the "financial strength and global presence" of Aviva in explaining the sale. Aviva said River Road's equity focus complemented its fixed income orientation and called the acquisition a "significant step in the development of our business in North America." Aviva also stressed the continuing independence of River Road's operation.

In the third quarter, **Evercore Partners** added a cross border acquisition with an asset management component to the two domestic deals it made earlier in the year, acquiring 50% of Brazil's G5. Based in Sao Paulo, G5 is an investment bank and institutional and wealth manager whose AUM doubled between the third quarter of 2009 and 2010 to $2.3 billion. Evercore paid $20 million in cash and securities, with potential earn-out payments through 2013 and a provision that allows the New York company to acquire full ownership beginning in 2014. In cementing the deal, the two firms built on a two-year "strategic alliance." Ralph Schlosstein, president and CEO of Evercore, called Brazil "an important new market for wealth creation" and "a great country in which to expand our wealth management and investment management activities." *(See Wealth and Money Management for information on Evercore's two other deals.)*

Several Canadian firms took advantage of the nation's currency parity with the greenback to expand in the U.S. These included Toronto-based **Foresters**, which acquired New York's **First Investors** in a deal between two privately held firms with long histories and similar middle-market customer bases. For insurer Foresters, founded in 1874 as a fraternal benefit society, the acquisition provides entry to the U.S. asset management market, along with the opportunity for cross-selling on both sides of the border. Foresters has existing insurance operations in the U.S. and the U.K. A diversified financial services firm that includes broker-dealer and insurance units, First Investors, founded in 1930, has $6.6 billion in AUM and a large, branded lineup of mutual funds. First Investors, which will operate as an independent unit within Foresters' U.S. division, described the deal as "the culmination of a thorough search for a business partner with a capital structure and financial resources" to position it for "significant growth."

Another Toronto firm, **Sprott Inc.**, paid $90 million in stock for **Rule Investments** (AUM: $480 million), a California asset manager and broker-dealer that specializes in the natural resource sector. Sprott, which

also manages natural resource investments, said the acquisition will diversify its product line and asset and earnings mix. In addition, the company views the addition of Rule as a means of expanding into the U.S. market with its branded line of funds. “We really look forward to being the footprint for Sprott’s U.S. growth across a range of products,” said Rick Rule, chairman of Rule Investments. Publicly traded Sprott, which had $6 billion in AUM prior to the deal, could pay additional performance-based incentives in 2015. In a third deal involving a Canadian buyer and American seller, mutual fund giant **CI Financial** acquired the Canadian fund business of **Hartford Financial Services Group**, consisting of 18 diversified funds with $1.7 billion in AUM. CI Financial described Hartford’s Canadian unit as one of the nation’s fastest-growing fund companies with a “strong lineup of portfolio managers and excellent relationships with dealers and advisors.” Hartford said the divestiture was in line with a focus on its “core U.S. operations.”

Asia’s two key emerging markets continued to draw multinationals in search of partners. China registered several deals, in line with recent trends, including **BNY Mellon**’s assumption of a 49% stake in a fund management joint venture with **Western Securities**, a 9-year-old Xi’an-based brokerage. BNY Mellon, which in 2009 was granted status by the Chinese government as a qualified foreign institutional investor, said it would initially target the retail market but also plans to pursue subadvisory mandates from non-Chinese institutional investors. Separately, BNY Mellon signed a memorandum of understanding with the Shanghai Stock Exchange to collaborate on ETFs that will be tied to BNY Mellon Depository Receipt Indices.

In a bid to capitalize on the expected growth of socially responsible investing in China, Italy’s **ECPI** and **Chinese Securities Index Company** (CSI) formed a joint venture index linked to “sustainable” Chinese companies. The **CSI ECPI China ESG 40 Equity Index** will be made up of 40 Chinese companies adhering to environmental, social and governance (ESG) principles. ECPI, which completed a management buyout last year from parent Mittel Group, is a “sustainability” research, ratings and indices provider in business since 1997. CSI is a joint venture between the Shanghai and Shenzhen stock exchanges. **Mitsubishi UFJ Financial Group** became the first Japanese firm to invest in a Chinese fund joint venture, as it bought BNP Paribas’ 33% stake in 6-year-old **SYWG BNP Paribas Asset Management** (AUM: $1.5 billion). The French bank was forced to sell to comply with Chinese regulations disallowing multiple fund joint ventures. Mitsubishi, which has a West Coast banking presence and a minority stake in **Morgan Stanley**, has set aggressive goals for its international business. Japanese banks in general are seeking a larger international footprint to counteract the diminished prospects they face at home.

Spanish bank **BBVA** formed a private banking joint venture with the influential Chinese investment firm **CITIC**, building on a related management agreement the two companies signed in late 2009. That same year, BBVA also raised its stake in **China CITIC Bank** to 15%. A China-focused deal within Sweden saw **East Capital** acquire **Asia Growth Investors** (AUM: $340 million), an asset manager specializing in Chinese investments. East Capital manages $6 billion in assets, with a focus on Eastern European financial markets. “Having two specialized investment teams under the same roof covering these two exciting parts of the emerging markets universe will be a very valuable additional offering to our investors,” says Peter Elam Hakansson, chairman of East Capital.

IN A DEAL INVOLVING AN INDIAN BUYER, RELIGARE ENTERPRISES CROSSED THE PACIFIC TO PAY $200 MILLION FOR A MAJORITY STAKE IN SAN FRANCISCO’S NORTHGATE CAPITAL.

In India, a high-profile transaction with an asset management component involved **Sumitomo Mitsui Financial Group**’s $300 million purchase of a 4.5% stake in **Kotak Mahindra**. Founded in 1985 and now the nation’s fourth-largest private bank, Kotak Mahindra manages a total of around $8 billion in mutual funds, having registered 89% growth in AUM during its fiscal 2009 year (the industry as a whole saw 52% growth). In addition, Kotak Mahindra has $1.2 billion in assets under management and advice in real estate and private equity funds. In 2009, the government imposed new regulations on the Indian mutual fund industry that limited fees and provided for greater transparency.

In a deal involving an Indian buyer, **Religare Enterprises** crossed the Pacific to pay $200 million for a majority stake in San Francisco’s **Northgate Capital** (AUM: $3 billion), a private equity fund of funds firm that includes three former professional football players among its founders. Ten-year-old Northgate serves institutions and high net worth individuals. Religare, which in 2009 made a bid with Macquarie Group for **American International Group**’s external asset management business, says it plans to spend up to $1 billion to build a diversified U.S.-based global asset management company with a goal of taking it public. Religare chief executive Sunil Godhwani said the “partnership” with Northgate “will accelerate our process of seeking similar partnerships in other asset classes, including both alternatives and traditional in developed and developing markets.” For Northgate, the link with Religare provides greater access to emerging markets.

Sumitomo Mitsui Financial Group was involved in a second cross border transaction within Japan, forming a private banking joint venture with **Barclays** that draws its name from both firms. Barclays, seeking to expand its wealth management footprint, said its partner provides "unparalleled access to the Japanese high net worth client base." In 2008, SMFG acquired a minority stake in Barclays as the British bank, reeling from the financial crisis, sought to bolster its capital base. In 2009, the SMFG acquired **Citigroup**'s Japanese brokerage, **Nikko Cordial**. Although Japan is the world's second-largest wealth market, investors are far more conservative than in other parts of Asia, showing a decided preference for cash investments.

IN THE HEDGE FUND INDUSTRY, WHERE CROSS BORDER ACTIVITY REGULARLY ACCOUNTS FOR A LARGE MAJORITY OF DEALS, BUYERS CONTINUED TO LOOK OUTSIDE THEIR DOMESTIC MARKETS.

Within the U.K., Tokyo-based **Mizuho Financial Group** sold its debt-management business (AUM: $6 billion) to London private equity firm **3i Group** for $29 million, with 3i taking a 55% stake and management the rest. **Mizuho Investment Management (U.K.)**, established in 2005, managed funds that invest in senior and subordinated corporate debt. 3i, with an existing but small credit unit, said the acquisition "will create an enhanced debt platform to grow profitably into the future." The company, like other private equity firms negatively impacted by the financial crisis, has been seeking to diversify its earnings.

In the hedge fund industry, where cross border activity regularly accounts for a large majority of deals, buyers continued to look outside their domestic markets, including **Credit Suisse, Gottex Fund Management** and **Natixis Global Asset Management** (*see Alternatives section*).

Real Estate

Against the backdrop of what appears to be a stabilizing if still uncertain property market, the real estate advisory sector last year registered an impressive 18 transactions valued at $960 million, with several of the deals driven by post-financial crisis corporate reorganizations. The lineup of buyers included such significant players as ***Guardian Life Insurance Company of America, Island Capital Group*** *and* ***Rockefeller Group International****. The slowly-but-surely consolidating advisory sector could witness a particularly important deal this year if* ***ING Groep*** *finally divests its large real estate business, an action the firm reviewed last year.* ***Morgan Stanley****, which suffered significant losses in its MSREF VI International real estate fund, is also mulling the options for its advisory business.*

The Rockefeller Group International (RGI) investment in European real estate fund manager **Europa Capital** marked the expansion of the group's large and diverse property business into Europe "across multiple risk/return strategies and asset classes," Rockefeller said in a statement. Founded in 1995 and based in London, Europa has raised six real estate funds and invested $8 billion throughout Europe; it has $2.8 billion in AUM. RGI, owned by **Mitsubishi Estate Co.** took a majority stake in Europa, with management retaining a "significant minority interest." Kevin Hackett, president and CEO of RGI, called the investment "a significant step in the realization of a RGI/MEC global real estate investment management platform." Calling this a "dynamic time" for the real estate market and property fund management business, Europa said it had "significant scope for developing our business from its established base through the introduction of a strategic investor."

A second transatlantic deal involved a management buyout of two **Merrill Lynch** property funds by their European investment team. The new London-based firm that emerged, **Peakside Capital**, acquired Merrill's **European Real Estate Opportunity Fund** and **Bosphorus Real Estate Fund I**, with a combined $635 million in capital commitments. Peakside, which will continue to manage legacy investments from Merrill parent **Bank of America**, said it intends to capitalize on "opportunities that are rapidly emerging in real estate in Europe." Merrill described the holdings as non-core. In a second buyout involving a non-core divestiture by a large parent, **KBC Asset Management** of Belgium sold its U.K. subsidiary

to local management. The new company, reorganized as **Lothbury Investment Management**, specializes in direct and indirect property investments in Europe and has $1.3 billion in AUM.

BMB Group, an aggressive alternative asset manager based in the Cayman Islands and co-founded by a member of Brunei's royal family, made its presence felt with two European acquisitions designed to expand its portfolio of real estate investments. In the first, BMB acquired Luxembourg-based **Contrarian Capital Partners** and its advisory subsidiary, **Beacon Hospitality Partners**, which has a client base similar to its new parent's of Middle Eastern and Asian investors. In explaining the deal, BMB referenced the "enormous opportunities in real estate globally" being generated in the "present economic environment." In the second deal announced shortly thereafter, BMB committed to invest $500 million in Dutch real estate advisor **Alliance Capital Group** (AUM: $3.7 billion) in return for a shareholding in a new company, **BMB Alliance**. Alliance, which has commercial property investments in Europe, said the link with BMB will provide access to new sources of capital as it seeks to "consolidate an industry-leading position in these turbulent times."

In other European deals, Austrian property developer **CA Immobilien Anlagen** paid $370 million for the **Europolis** real estate unit of **Oesterreichische Volksbanken AG**, with half the price deferred over five years. Europolis, also based in Austria, adds more than $2 billion in commercial property assets in central and eastern Europe to the $5 billion CA Immo already managed. CA Immo said it is confident that "this is a good time in the property cycle to be investing in [Eastern Europe] for the long term." In a second domestic deal in neighboring Germany, property company **Mann Immobilien-Verwaltung** acquired more than 18% of the shares in **IVG Immobilien**, a real estate manager with $31 billion in AUM.

There were several domestic U.S. deals of note. One of the more interesting developments involved the return to the distressed property market of real estate investor Andrew Farkas, who made a wager on the commercial mortgage-backed securities market with the purchase of **Centerline Holding Co.**'s CMBS fund management and loan special servicing businesses. The deal was done through **C-III Capital Partners**, a new subsidiary of Farkas' privately held real estate firm, **Island Capital Group**. The deal involved consideration of $110 million, consisting of $50 million in cash and $60 million in assumed senior debt. Based in New York, Farkas made his name and fortune during the 1990s by purchasing distressed real estate limited partnerships. Farkas said the creation of C-III represents the "adaptation and implementation" of the strategy he employed in the 1990s "to the present environment," involving the acquisition of real estate debt derivatives and the creation of special servicing and related businesses to manage them.

Guardian Life Insurance acquired a "substantial, non-controlling interest" in **Lowe Enterprises**' real estate advisory unit, **Lowe Enterprises Investors**. As part of what the companies called a "strategic partnership," the New York-based insurer will invest more than $200 million to expand Lowe's portfolio. Lowe Enterprises Investors, based in Los Angeles, has $6 billion in diverse real estate assets managed individually and in commingled funds. Lowe Enterprises Investors co-CEO Brad Howe said the partnership "positions us to take advantage of the recovery of the real estate market and will allow us to better serve our clients by improving our capital resources." Similarly, Guardian said the current environment offered "an opportune time to invest in real estate" while praising the track record of its partner.

Trecap Partners bought the real estate equity investment advisory business of troubled **Capmark Investments** (AUM: $4.3 billion), including investment management

Real Estate Transactions

	2006	2007	2008	2009	2010
Number of Transactions	10	17	5	6	**18**
Combined Value ($M)	$1,536	$2,044	$358	$280	**$960**
Total Seller AUM ($B)	$31.1	$53.6	$20.8	$13.8	**$79.8**
Average Deal Size ($M)	$154	$120	$72	$47	**$53**
Average Seller AUM ($B)	$3.1	$3.2	$4.2	$2.3	**$4.4**

Source: Berkshire Capital Securities LLC

THERE WERE SEVERAL DOMESTIC U.S. DEALS OF NOTE. ONE OF THE MORE INTERESTING DEVELOPMENTS INVOLVED THE RETURN TO THE DISTRESSED PROPERTY MARKET OF REAL ESTATE INVESTOR ANDREW FARKAS.

contracts and general partnership interests in real estate equity funds in the U.S. and Europe. Capmark Investments filed for Chapter 11 in January 2010, just a few months after parent **Capmark Financial Group** took the same action following a downturn in its commercial property business. Philadelphia-based Trecap was formed in 2009 by several veterans of Equitable Real Estate Investment Management to provide investment management and consulting services to institutions and high net worth advisors. One of those principals, Douglas Tibbetts, in 2009 called the current environment "the real estate 'Super Bowl of the century' if investment management firms are well-capitalized and deploy the capital wisely."

In an Australian transaction, property fund manager **Charter Hall Group** paid $270 million for a majority of **Macquarie Group**'s real estate management platform, transforming itself into one of the nation's largest specialist real estate fund managers, with some $9 billion in AUM, two-thirds derived from Macquarie. Macquarie, which has been exiting its traditional listed specialist real estate management fund business as part of a strategic restructuring, received cash as well as a 10% shareholding in Charter Hall. The deal includes Macquarie's interests in five real estate investment trusts (two listed and three unlisted) as well as management rights to the businesses. Prior to the transaction, Charter Hall ran a range of specialist unlisted funds.

Hedge Funds / Private Equity

*Since its founding in 1994, New York hedge fund **Paulson & Co.** has earned nearly as much as aircraft manufacturer Boeing, according to a study by **LCH Investments** and reported by the Financial Times. Boeing employs 158,000 people worldwide and in 2009 delivered 481 commercial airplanes, 121 military aircraft and six satellites. Privately held Paulson, which garnered public attention in 2008 following the stratospheric returns it generated betting against the subprime mortgage market, probably employs less than 100 people and in truth produces nothing more tangible than financial models.*

Paulson's outsized success is testimony to both the evolution of the post-industrial economy and the riches accrued by the winners in his particular industry. One of the oldest hedge funds, George Soros' **Quantum Endowment fund**, has earned $32 billion during its 37-year life, while the top 10 hedge funds in total have amassed $153 billion in earnings since setting up shop. As institutions replace wealthy individuals as the primary investors — in 2009, institutions accounted for 75% of assets at the 11 largest hedge funds ranked by *Pensions & Investments* — funds run by the likes of Paulson and Soros continue to gain dominance in an industry with as many as 7,000 players.

IN 2010, TWO OF THE INDUSTRY'S BIGGEST PLAYERS TEAMED UP IN ONE OF THE LARGEST HEDGE FUND DEALS TO DATE.

The latest survey by *Pensions & Investments* indicates that its universe of 95 companies managing at least $1 billion in hedge fund and funds of hedge funds assets held nearly half the $2.2 trillion in industry assets, while the 25 largest companies accounted for 30% of that total. AR magazine estimates that U.S. hedge funds with $5 billion or more in AUM recorded a 1% increase in assets during the first half of 2010 while the firms above $1 billion saw their AUM decline or flatten out. In the second quarter of 2010, Hedge Fund Research said that 93% of net inflows was placed with managers handling $5 billion or more. In addition, although 342 companies with more than $1 billion in AUM represented just 5% of the hedge funds in HFR's data base, they accounted for 76% of assets.

In line with these trends, in 2010, two of the industry's biggest players teamed up in one of the largest hedge fund deals to date. **Man Group**'s $1.6 billion acquisition of **GLG Partners** places the London firm among the top two industry leaders, with more than $50 billion in dedicated hedge fund AUM. In total, there were 20 hedge fund deals valued at $2.8 billion in what turned out to be a particularly robust 2010, along with two other transactions of note that incorporated an important hedge fund element.

The Man-GLG deal pairs two publicly traded and complementary firms that have experienced sharply diminished performances since the start of the financial crisis: Man saw its AUM drop in half from a 2007 peak while GLG watched $10 billion in AUM disappear in 2008, in part due to the departure of noted emerging markets fund manager Greg Coffey. Effectively, the deal allows both firms to replace lost assets, with GLG adding $24 billion in AUM to the $39 billion Man managed prior to the deal, including $12 billion in long-only funds (the majority acquired from **Societe Generale** in 2009). The two firms also display little overlap, with GLG providing a discretionary investment style that balances Man's quantitative orientation, as well as a customer base that

includes ultra high net worth clients on the retail side and sovereign wealth funds on the institutional end. By contrast, Man's retail customers tend to come from the "mass affluent" market and its investors from regions where GLG's presence is weaker or nonexistent, such as Asia-Pacific, parts of Europe including Switzerland, and South America.

In 2007, after 12 years as a private concern, GLG became the first pure hedge fund to go public on the New York Stock Exchange, through a reverse takeover by a special purpose acquisition vehicle, Freedom Acquisition Holdings. After climbing nearly 50% that year, the shares turned south in 2008 with its performance and the larger market. In the Man deal, public shareholders received a cash price of $4.50 per share that represented a 55% premium to GLG's closing price at the time of the deal in mid-May, albeit half of GLG's $10 float price. The three principals and other employees who owned 50% of GLG received $3.50 worth of new Man shares for each GLG share they owned, leaving the principals with a 10% stake in their new parent.

Man, which said the transaction could yield $50 million in annual savings and would be earnings accretive in its 2012 fiscal year, paid nearly 7 percent of AUM and 24 times 2010 consensus earnings. GLG represents the second major acquisition Man has secured in less than a decade, the first being the $833 million deal in 2002 for RMF Investment Group, a Swiss fund of hedge funds manager. At the time, RMF nearly doubled Man's AUM to $20 billion. Man has also taken stakes in several other hedge funds over the years.

There were two other large deals by banks, both of which crossed borders. **Credit Suisse Group** paid $425 million for 30% of New York's **York Capital Management** (AUM: $14 billion), with earn-out payments that could drive the price higher based on five-year performance. An event-driven investor in the equity and credit markets, York was founded in 1991 and by 2000 had amassed $600 million in AUM. Between 2002 and 2005, however, York's fortunes took off, with AUM jumping more than fivefold to $7.6 billion, driven by performance and growing investor interest in the asset class. During that same period, York chairman and CEO Jamie Dinan earned a few headlines for picking up the Fifth Avenue residence of disgraced former Tyco CEO Dennis Kozlowski at less than the asking price — a measure of revenge for Dinan, whose firm lost money on Tyco.

Credit Suisse, which aims to become a "global leader in multi-asset-class solutions as well as alternative investments," said the relationship with York provides its clients with "access to a top-tier suite of products" while York cited the Swiss bank's "global reach and resources." Significantly, Credit Suisse said it had discussed the transaction with regulators to ensure it was not running afoul of new rules that limit the amount of capital banks can contribute to hedge funds. In its press release, the bank emphasized it was taking a "non-controlling interest in the management company, not an investment in the funds." In 2008, Credit Suisse also took a minority interest in **Aberdeen Asset Management** in a deal that involved the sale of its long-only fund management business.

Hedge Fund Transactions

	2006	2007	2008	2009	2010
Number of Transactions	29	29	30	10	**20**
Combined Value ($M)	$1,570	$8,399	$1,417	$201	**$2,792**
Total Seller AUM ($B)	$57.6	$133.0	$46.2	$19.7	**$125.0**
Average Deal Size ($M)	$54	$290	$47	$20	**$140**
Average Seller AUM ($B)	$2.0	$4.6	$1.5	$2.0	**$6.3**

Source: Berkshire Capital Securities LLC

Separately, Credit Suisse acquired **Fortis Bank Nederlands' Prime Fund Solutions** business, a leader in hedge fund administration services, while a team of commodities traders at Credit Suisse left to form their own hedge fund, according to the Wall Street Journal. The commodities group is reportedly being backed by **Blackstone Group**, which has raised more than $1 billion in its Strategic Alliance Fund II to seed new hedge funds. Blackstone also took a 40% stake in a Brazilian alternative investments firm, **Patria**, which manages $3.2 billion in private equity, real estate, infrastructure and hedge funds. Blackstone said the deal will allow its partners and clients "to benefit from the fast-expanding business opportunities in the country."

The second major bank deal saw **JPMorgan Chase** also head to the hot Brazilian market to pay $270 million for a 55% share of **Gavea Investimentos**, which manages $6 billion, primarily in hedge fund and private equity assets. Gavea was co-founded in 2003 by Arminio Fraga, who was a fund manager for George Soros before becoming Brazil's central bank chief in 1999. The deal was done through JPMorgan Chase's alternative asset manager, **Highbridge Capital Management**. Calling Fraga "one of the finest global macroeconomic hedge fund managers in the world," Highbridge said the tie-up provides clients with "the ideal combination of local emerging markets expertise with the global platform of **J.P. Morgan Asset Management**." Recently, a number of alternative investors have started dedicated funds or set up shop in Brazil.

Another major New York bank, **Morgan Stanley**, restructured its relationship with hedge fund **FrontPoint Partners** (AUM: $7 billion), with management taking a majority stake while Morgan Stanley assumed a minority share. Prior to the announcement of the deal in October, the Wall Street Journal reported that the two sides were discussing a preferred equity feature that would allow Morgan Stanley to take a "large percentage" of FrontPoint earnings for five years, as a way for the bank to recoup its investment. Morgan Stanley acquired FrontPoint in 2006 for a reported $400 million at a time when the bank was aggressively adding hedge fund capabilities (four deals in 2006 alone). Analysts view Morgan Stanley's decision to sell as both a reaction to new financial regulations and an effort at risk management. Noted FrontPoint fund manager Steve Eisman was profiled in Michael Lewis' "The Big Short" for his success in divining the collapse of the subprime market.

AS PART OF THE EFFORT TO SHED NON-CORE ASSETS, CITIGROUP SOLD A HEDGE FUND OF FUNDS, SEEDING AND ADVISORY UNIT TO SKYBRIDGE CAPITAL.

As part of the effort to shed non-core assets, **Citigroup** sold a hedge fund of funds, seeding and advisory unit to **SkyBridge Capital**, also of New York. SkyBridge was founded in 2005 primarily as a hedge fund "incubator" and has made eight investments since then, including one last year in New Jersey's **Viathon Capital**, which runs a credit opportunity fund. On average, the company provides $35 million in seed capital to funds. The Citi deal extends SkyBridge's business into fund of funds management, adding $4.2 billion in assets under management and advice. Prior to the deal, SkyBridge had $1.4 billion in AUM via its investments. The deal also expands SkyBridge's clientele, adding institutions to the high net worth investors it already served.

SkyBridge managing partner Anthony Scaramucci called the integration of a fund of funds business a "natural fit" with his company's platform. SkyBridge was joined by several other bidders for Citi's business, in a sign of the increasing interest among buyers in fund of funds. Citi also sold its management rights and proprietary interests to $4 billion in private equity funds to **StepStone Group** and **Lexington Partners**. **Bank of America** joined Citi in selling off private equity funds with $1.9 billion in AUM to **AXA**'s private equity unit. BoA said the transaction enables it to "manage its capital allocation on the long term in terms of risk." In addition, BoA spun off part of its middle-market private equity unit, **Banc of America Capital Investors**, into a new company called **Ridgemont Equity Partners**. Ridgemont will continue to manage $1.5 billion in assets for BoA while expanding into investment management for third parties.

The New York-based quantitative strategies group at Deutsche Bank executed a spinoff from **QS Investors**, taking the German bank with it as a client. QSI, formed in 1999 and previously part of the bank's institutional advisors unit, has $11 billion in AUM and another $70 billion under advisement across a range of strategies. Deutsche also did a spinoff of a second New York asset management arm with $9 billion in AUM, subsequently named **Global Thematic Partners**. An institutional and retail manager, GTP makes "thematic" investments, including a significant niche in global agribusiness. Another German financial services firm, **Allianz Group**, sold its fund of funds unit to **Nexar Capital Group** of New York and Paris. Nexar said the deal "reinforces our capabilities in Europe." A fund of funds manager, Nexar was started in 2009 by former hedge fund managers at Societe Generale with backing from financial services private equity investor **Aquiline Capital Partners**. With the acquisition, Nexar has more than $3 billion in AUM.

Goldman Sachs bucked the trend of bank divestitures of alternatives by taking minority stakes in two U.S. hedge funds, including **Level Global Investors**, a 7-year-old firm that generally focuses on the direction of stock prices in the technology and financial sectors. Level Global was founded by Dave Ganek, who cut his teeth in the hedge fund industry at **SAC Capital Advisors**. The second deal was for **Mount Lucas Management**, a global macro manager with $1.8 billion in AUM that was founded in 1986. Both deals were done through Goldman's London-based hedge fund acquisition vehicle, **Petershill**, bringing its total number of investments to seven. Another New York firm, **AllianceBernstein**, acquired the hedge fund and private equity unit of insurer **SunAmerica**. AB called the deal part of the "strategic expansion of our alternative investment capabilities." In its latest annual report covering the 2009 year, AB reported $3.9 billion in alternative AUM, about two-thirds of which was managed for private clients, primarily in hedge funds. That total represents a tiny part of AB's AUM ($484 billion), but chairman and CEO Peter Kraus, installed in December 2008 and the former co-head of asset management at Goldman Sachs, has put more emphasis on expanding the alternatives business, with AB having recently introduced real estate and energy funds.

AllianceBernstein's majority shareholder, French insurer AXA, bought out management's 25% share of **AXA Rosenberg**, a California-based quantitative manager badly damaged by revelations that senior investment officers had waited months to reveal coding errors in its computer-based risk program. The errors stretched

back to 2007 but weren't discovered until mid-2009. Although the problems were fixed by late 2009, they were not reported immediately to AXA Rosenberg's board, raising issues of board oversight, transparency and risk management. Ultimately, the incident led to the resignation of AXA Rosenberg chairman Barr Rosenberg and the company's director of research. A number of institutions and asset managers also pulled mandates, including some $600 million from the Connecticut Retirement Plans and Trust Funds and $400 million from the Florida State Board of Administration, and the company's total AUM dropped in half to $32 billion by May 2010 before stabilizing. According to reports, AXA executives had chafed under the tight operational control Barr Rosenberg had been able to retain as a minority shareholder.

In addition to the $1.9 billion in private equity funds it acquired from Bank of America, AXA also picked up $720 million in private equity investments from French financial services firm **Natixis**. At the same time, Natixis formed a "strategic partnership" with a startup London "global macro" manager, **H_2O Asset Management**. The French firm took a minority stake with the option to assume majority control at the end of 2010, a structure "in line with the multi-boutique model" of **Natixis Global Asset Management** (NGAM). H_2O is being run by two former executives in the U.K. office of **Amundi**, created by the 2009 merger between the asset management units of **Credit Agricole** and Societe Generale. Natixis said the new company will benefit from its global sales and corporate infrastructure.

Pierre Servant, CEO of NGAM since 2007, has been seeking to improve the asset manager's profitability by expanding the portfolio of alternative investments. Natixis' largest single asset class involves low-margin life insurance mandates (29% of $750 billion in AUM), while alternative and structured products account for 5%. Natixis also acquired a majority stake in a Paris-based ETF startup, **Ossiam**, and was among the suitors reviewing a possible acquisition of **Unicredit**'s Boston-based asset manager, **Pioneer**.

In a significant transatlantic deal involving players from the two centers of the hedge fund universe, **TPG-Axon** of New York and **Montrica Investment Management** of London merged into a new company with more than $9 billion in AUM. TPG-Axon, which brings the lion's share of the assets, was founded in 2005 and is an equities-focused investor, while Montrica is an events-driven firm. The principals at both hedge funds had previously worked together as traders in Goldman Sachs. In a letter to investors quoted in the *Financial Times*, Montrica said it "will benefit from scale advantages including access to company management teams, better leverage with counterparties" and enhanced back-office capabilities. Both firms have seen their assets drop sharply from the peaks achieved prior to the financial crisis.

There were several other transatlantic deals of note. New York's **Sciens Capital Management**, a diversified alternative asset manager with $6 billion in AUM, acquired **Partners Group Fund Services**, which operates a Guernsey-based platform of hedge fund managed accounts (AUM: $700 million). Sciens praised managed accounts for offering more transparency, including risk exposure, and liquidity — characteristics of particular importance to institutions. The deal, which marked the second hedge fund acquisition made by Sciens since 2008, was concluded with Swiss parent **Partners Group**, which manages $26 billion in a variety of alternative investments. In a second transaction involving Swiss and New York firms, Lausanne-based fund of hedge funds manager **Gottex Fund Management** acquired **Constellar Capital**, a small, global multi-strategy firm with three fund of funds (AUM: $150 million), including one focused on Asia.

Like many hedge funds, Gottex has continued to struggle with declining AUM, which dropped a further 11% in the half-year through June 2010 to $7.3 billion, with management fees off similarly. The company did note in its half-year earnings presentation that "opportunities to acquire smaller [fund of funds] firms are available to larger players such as Gottex." Scotland's **Ignis Asset Management** did a spinoff of its specialist credit investment manager **Castle Hill Asset Management** that saw it retain a 49% stake, with management at Castle Hill retaining the rest. Castle Hill, based in the U.S. and the U.K. and with $2 billion in AUM, operated as a subadvisor for Ignis mandates, and the spinoff was reportedly done to accommodate demand for investment from third parties. Ignis has three other asset management joint ventures.

LIKE MANY HEDGE FUNDS, GOTTEX HAS CONTINUED TO STRUGGLE WITH DECLINING AUM, WHICH DROPPED A FURTHER 11% IN THE HALF-YEAR THROUGH JUNE 2010 TO $7.3 BILLION, WITH MANAGEMENT FEES OFF SIMILARLY.

The U.S. arm of Japanese financial company **ORIX Corp**. entered the asset management business by taking a majority share in **MIG Holdings**, the suburban New York-based parent of hedge fund and alternative manager **Mariner Investment Group**. The two companies have had a relationship for several years. Japanese media put the price at some $180 million, which Mariner management will reinvest in the company's funds. Founded in 1992,

Mariner has $11.7 billion in AUM through direct and affiliated single and multi-strategy hedge funds, fund of funds and other alternatives. Mariner CEO Bracebridge Young cited Orix's presence in Japan and elsewhere in Asia as "particularly exciting as the region offers a burgeoning opportunity for both investment strategies and distribution."

In a purely U.S. domestic deal, insurer **Genworth Financial** paid $35 million for **Altegris Advisors**, a California firm that acts as an advisor for wealth managers to a platform of independently managed alternative investments, including hedge funds and managed futures products. The company represents $2 billion in assets. The deal provides Genworth with a larger suite of products for its third-party advisors and Altegris with distribution muscle. Genworth said the deal followed a lengthy period of research among its advisors regarding new product preferences.

Two of the most important deals in Europe had a hedge fund element and took place in the U.K.: **F&C Asset Management**'s purchase of **Thames River Capital** and **Aberdeen Asset Management**'s acquisition of the asset management business of **Royal Bank of Scotland** *(see Money Management)*. The U.K. was the venue for several other deals, including **Standard Life Investments**' purchase of 75% of **Aida Capital**, an established but small fund of hedge funds manager. SLI, owned by insurer **Standard Life**, has around 15% of its $25 billion in alternative AUM in a global absolute return strategy, with the rest in commercial property and private equity. In a separate move, SLI entered into a "strategic alliance" with Japan's **Chuo Mitsui Asset Trust and Banking** for reciprocal asset management services on a total of more than $2 billion. SLI is the largest active manager of U.K. pension funds.

Martin Currie of Scotland acquired **Sofaer Capital**'s European long-short equity business, adding $280 million in assets to the $1.2 billion in hedge funds it already managed. Sofaer, established in 1986, said the sale was driven in part by regulatory changes in Europe and that it would manage its remaining business from its Hong Kong headquarters, maintaining only a small research presence in London. Martin Currie, which manages a total of $17 billion in assets in active equity portfolios (26% off its 2007 high), said the acquisition enhanced its European equities expertise and "fills an obvious gap in our long/short equity business." **Schroders** took a 49% stake in **RWC Partners**, whose $2 billion in AUM is equally split between hedge funds and long-only equity and fixed income investments.

The deal took place shortly after two of Schroders' key investment managers left to join RWC and involved the shareholdings of private investors. RWC, like Schroders based in London, has successfully recruited a number of notable investment managers from major firms during its 10-year history. Schroders' AUM rose 31% in the year through September to more than $290 billion, driven by inflows and improved performance. In a deal between two fund of funds managers, London's **Stenham Asset Management** added $400 million in AUM to the $3 billion it already managed via the acquisition of **Montier Partners** of the U.K. Though small, Montier is one of the oldest fund of funds companies, having been established in 1966; it manages three funds. SAM, part of financial services firm **Peregrine Holdings**, said the transaction strengthened its management and investment lineup.

In the private equity industry, **Affiliated Managers Group** paid $775 million for 85% of private equity fund of funds manager **Pantheon Ventures** — a price tag that could reach $1 billion over the next five years with performance incentives. Management at London-based Pantheon, with $22 billion in AUM one of the top three fund of funds companies in the world, retained 15% of equity. For AMG, the acquisition provides entry to the private equity arena at one of the industry's more challenging moments, with the fund of funds sector particularly hard hit. In 2009, fund of funds firms raised $23 billion, far off the 2007 high-water mark of $56 billion, according to researcher Preqin. In the first half of 2010, the number dropped below $3 billion. "From our own perspective and I believe from the perspective of almost any fund of fund manager, we are having to work harder to attract investors," one manager told *Pensions & Investments*.

Still, AMG president and CEO Sean Healey called private equity "a core element of institutional investors' overall asset allocation" and expressed confidence "the asset class will continue to produce superior returns and attract new clients worldwide." He also cited Pantheon's "outstanding record of outperformance across a broad suite of investment strategies" and the "scalability of its investment platform." Pantheon, which derives three-quarters of its AUM from pension funds, was formed in 1982 and acquired in 2004 by **Russell Investments**, the asset management arm of **Northwestern Mutual Life Insurance Co.** Management at Pantheon said they were attracted to AMG by the opportunity to gain equity in their business *(see Cross Border for more on AMG).*

In a second cross border deal, **Religare Enterprises**, an aggressive financial services firm from India, paid $200 million for a majority stake in a San Francisco private equity fund of funds company, **Northgate Capital** *(see Cross Border)*. In the U.K., **Gartmore** and **Hermes** merged their private equity fund of funds businesses into a joint venture with more than $6 billion in AUM, called **Hermes GPE**. The two companies said the combination will provide economies of scale and greater resources. By the fourth quarter of 2010, following the departure of two of its leading fund managers and beset by client outflows, Gartmore was taking steps to place itself on the sales block. ❖

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