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A Tale of Two Techies (And Two Quarters)

Apple and Facebook — two titans of the tech industry — served as virtual proxies for the dichotomous fortunes of U.S. equity markets during the first half. Between January and the second week of April, Apple's stock price jumped 59%, achieving a weighting of more than 4% of the S&P 500 index and a market capitalization north of $600 billion. Spurred by Apple's run and the most bullish investor sentiment since the start of the financial crisis, the major indexes rose sharply in the first quarter, with the S&P 500 up 12%.

By the time Facebook went public toward the end of May, however, the tides had turned. Amid renewed concerns about Greece, Spain, the future of the eurozone, and a slowdown in the world economy, those hyperactive first-quarter gains were disappearing fast. Facebook, priced at a dot-com-era 100 times earnings, saw its share price plunge 10% by the second day of trading and 27% after two weeks. Apple was hardly immune to the headlines: its share price declined as much as 19% from April's high.

For investors, the pattern was depressingly familiar, mimicking the arc of the markets in 2011. In response, they reverted to script by flocking to the safety of U.S. and German government bonds — in the process driving yields on 10-year Treasury bonds to historic lows of 1.5%. John Briggs, U.S. interest-rate strategist at **RBS Securities** (part of **Royal Bank of Scotland**), summed up the prevailing sentiment for the *Wall Street Journal*: "Yield doesn't matter. It's about principle and the return of it."

Ordinarily, low borrowing costs, plenty of cash on corporate balance sheets, and restrained valuations on public companies might point to a robust M&A market. But these are hardly ordinary times, and larger concerns about the direction of the world economy are to date placing a lid on activity. In the first half of 2012, the value of global deals fell 22% from the same period in 2011 (to $1.1 trillion), with the U.S. off 42% (to $330 billion), according to Thomson Reuters.

Against that larger canvas, the asset management industry registered a reasonable level of activity in the first half, though it lacked the drama of a megadeal. Indeed, the expected sale by **Deutsche Bank** of most its asset management business failed to materialize and had in fact grown more complex, as expected buyer **Guggenheim Partners** took a pass, raising the prospect of a piecemeal divestiture of the entire business, including the **DWS Investments** U.S. mutual fund unit. (Guggenheim was also unable to reach agreement on the purchase of Deutsche's real estate advisory unit, **RREEF**.)

Deutsche was joined by several other major financial services firms planning divestitures. **ING Groep** has its Asian asset management business on the sale block, with regionally based firms such as **Macquarie Group** and **Nikko Asset Management** reportedly circling. Another Dutch firm, **Rabobank** is mulling the sale of its fund management business, while **Bank of America** is shopping its non-U.S. wealth management business. **Barclays** announced the sale of its 20% stake in **BlackRock**, gained as part of the $15 billion sale of the **iShares** exchange traded fund business to BlackRock in 2009. Barclays' share sale — part of a larger asset divestiture initiative — will be done via an underwritten public offering and a $1 billion buyback by BlackRock.

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Other brand name firms were making acquisitions, albeit in bite-size portions. These included BlackRock, **CI Financial Corp.**, **Federated Investors**, **Goldman Sachs**, **Principal Financial**, **Schroders** and **Royal Bank of Canada**. Cross border deals in emerging markets remained another continuing feature of M&A activity, along with acquisitions by private equity players, who maintained a focus on the revived and consolidating collateralized loan obligation (CLO) market. For one such buyer, **Carlyle Group**, the deal for **Highland Capital Management**'s European CLO assets marked its fifth such acquisition since 2010. Separately, two U.S. private equity firms — Carlyle and **Oaktree Capital Management** — went public, although pricing finished on the lower end of expectations.

In the wealth sector, European private equity firm **Bridgepoint Capital** paid $280 million for **Morgan Stanley**'s British wealth manager **Quilter** (AUM: $12 billion). A high-profile cross border deal saw Rothschild family-controlled and London-based **RIT Capital Partners** buy a 37% stake in New York's **Rockefeller Financial Services** from **Societe Generale Private Banking**. In the U.S. mass affluent market, **Lee Equity Partners** announced its intention to acquire one of the more popularly known names, **Edelman Financial Group**.

Affiliated Managers Group cut two deals in the first half, including the purchase of a majority shareholding in a high-profile value-oriented fund manager, **Yacktman Asset Management**. Montreal-based **BMO Financial Group** was another serial acquirer, expanding its Chinese presence with a minority stake in **COFCO Trust Co.** and its U.S. wealth capabilities by purchasing **CTC Consulting**. **Nippon Life Insurance Co.** and **Sumitomo Mitsui Financial Group** took minority shares in asset managers in India and China, respectively, highlighting the efforts of Japanese firms to expand beyond an aging and slow-growth domestic market.

Both India and China have been taking additional measures to attract foreign investment. Following talks with the U.S. in April, China raised the cap from 33% to 49% on foreign ownership of investment banking joint ventures, while India has relaxed the rules on direct foreign investment in public companies. Not coincidentally, perhaps, the U.S. subsequently approved the first Chinese takeover of an American bank: **Industrial & Commercial Bank of China**'s acquisition of the U.S. unit of Hong Kong-based **Bank of East Asia**.

Latin America continued to draw buyers from outside the region, including **Principal Financial** and **Royal Bank of Canada**. Ambitious Brazilian financial giant **BTG Pactual** accounted for the largest deal in that region, reportedly paying $600 million for Chile's **Celfin Capital**, an investment bank, wealth manager and fund company. Amid an insider trading case in Italy against BTG chairman and CEO Andre Esteves that generated some negative publicity, the company also went public in April. Esteves is the controlling shareholder in BTG and one of Brazil's wealthiest individuals.

In North America, Canadian firms remained active participants on both sides of the border and both sides of the negotiating table. While BMO Financial went south to acquire Portland, Ore.-based CTC Consulting, BlackRock headed north to enhance its dominant position in the Canadian exchange traded funds market by acquiring **Claymore Canada**. The largest Canadian deal was an all-domestic affair that in which **Fiera Sceptre Inc.** will pay up to $310 million in stock and cash for the asset management business of **National Bank of Canada**, as Fiera sought to strengthen its hand in the ever-consolidating Canadian market. Other domestic deals included CI Financial Corp.'s acquisition of a minority interest in fixed income hedge fund **Lawrence Park Capital Partners** and **Matrix Asset Management**'s purchase of the assets of institutional and wealth manager **LeeSide Capital Management**.

There were a number of noteworthy U.S. small and mid-size deals. Goldman Sachs acquired stable value manager **Dwight Asset Management**, enhancing its position in that staid but growing part of the retirement market. Federated Investors added to its formidable money market business by acquiring $5 billion in such assets from **Fifth Third Bancorp**, which also sold its mutual fund business to **Touchstone Advisors**. In the wealth market, **Bryn Mawr Bank Corp.** of Pennsylvania and **Mariner Wealth Advisors** of Kansas continued to extend their capabilities with acquisitions.

In the real estate advisory sector, **USAA Real Estate** took a minority stake in **Square Mile Capital Management**, an opportunistic investor in debt and equity. The marquee deal in the hedge fund industry involved the **Teacher Retirement System of Texas** making a $250 million minority investment in **Bridgewater Associates** — a non-voting stake that provides TRST with a share of the hedge fund's profits. The fund of hedge funds sector — in retreat since the financial crisis — experienced continued consolidation, with **Man Group, Rothschild & Cie Gestion** and **Union Bancaire Privee** all engaging in transactions for fund of funds managers. Established Swiss fund of funds manager **EIM** is also reportedly seeking a merger partner.

Money Management

Before the bad news from the eurozone kicked in again, U.S. equities enjoyed a brief period of bliss. The Dow Jones Industrial Average delivered its best first-quarter performance since 1998, rising 8.1%, while Nasdaq jumped 19% for its best opening three months in more than 20 years. The S&P 500 registered one of its fastest starts in history, rising 12%. Still, as if anticipating what lay over the horizon in April and May, investors continued to pull money from traditional equity funds, which registered outflows of $8.6 billion during the first quarter, according to the Investment Company Institute. By contrast, bond funds continued to roll along, with inflows of $95 billion, while hybrid funds netted $23 billion.

Reflecting both the conservative tilt of many retail investors and the related aging of the population, **Goldman Sachs** made a bid to capture more of the low-risk savings in defined contribution plans by acquiring stable value manager **Dwight Asset Management** from **Old Mutual Asset Management**. Based in Vermont and established in 1983, Dwight manages and advises $42 billion in assets. A common offering in DC plans, stable value funds have $540 billion in assets and are expected to grow along with the more conservative investment goals of baby boomers. In 2011, inflows reached $1.4 billion, nearly four times the level in 2010. Goldman said the acquisition "enables us to deliver more investment solutions" to the DC market.

In another move aimed at strengthening a portfolio of conservative offerings, **Davidson Companies** acquired **SeaCap Investment Advisors** (AUM: $860 million), a Seattle-based fixed income specialist serving institutions and high net worth investors. An investment bank with a significant private client group, Montana-based Davidson has a total of $28 billion in AUM, with SeaCap boosting its fixed income assets to $6.1 billion. The deal also builds upon Davidson's 2011 expansion in the Seattle market through its trust division. In a second securities-related deal, Davidson acquired **McGladrey Capital Markets** *(see "Securities")*. In a widely anticipated move, Cincinnati's **Fifth Third Bancorp** sold its small retail fund businesses, amounting to $8 billion in assets, with **Federated Investors** taking $5 billion in money market assets and **Touchstone Advisors** $3 billion in assets from 16 mutual funds. Fifth Third continues to run its institutional asset management business and will remain as subadvisor to some of the Touchstone funds.

Affiliated Managers Group took a majority stake in one of the most prominent large-cap value investors in the mutual fund world, **Yacktman Asset Management** (AUM: $17 billion). The firm's founder, Donald Yacktman — nominated in 2009 as a Morningstar "Fund Manager of the Decade" — said the deal provides scale while preserving "our firm's entrepreneurial culture and investment autonomy." In addition, Yacktman said the partnership offers a roadmap for succession planning through an equity incentive program benefitting the company's partners. **Third Avenue Management**, one of AMG's longstanding affiliates, cut an interesting deal with an asset management element when it acquired a minority stake in newly formed **Millstein & Co.** The company was founded last September by the former chief restructuring officer of the U.S. Treasury Department, Jim Millstein, to provide advice to and make investments in companies requiring restructuring and recapitalization. Millstein will use the capital for expansion while Third Avenue aims to leverage its partner's expertise to expand its existing portfolio of distressed situations investments.

Hennessy Advisors acquired a diversified group of funds from investment bank **FBR & Co.**, adding $1.9 billion in assets to the $800 million it already managed. Three of the 10 **FBR**-branded funds being acquired will be merged into existing and similar Hennessy funds while the remaining seven will "move under the Hennessy investment management umbrella" with a mix of direct and subadvisory relationships. Publicly traded Hennessy has been making acquisitions for more than a decade, but FBR represents its largest such deal by far and the first since 2009.

Canada played host to several deals, including a cross border one involving **BlackRock**, which enhanced its leading position in that nation's exchange traded fund market through the all-cash purchase of **Claymore Canada**. The deal adds $7 billion in ETF assets and complementary products to the $29 billion BlackRock's **iShares** unit already managed in Canada, vaulting the company's market share above 80%. BlackRock plans to wrap the Claymore branded funds under the iShares name. The transaction was concluded with Claymore owner **Guggenheim Partners**, which acquired the larger Claymore business in 2009 and said it remains "strongly committed to growing" its U.S. ETF business.

In a major all-Canadian transaction, **Fiera Sceptre Inc.** will pay as much as $310 million in cash and stock for the asset management business of **National Bank of Canada**, with about one-quarter of the price in earnout payments over seven years based on AUM. NBC gains a 35% stake in publicly traded Fiera, which becomes the ninth-largest asset manager in Canada. The deal adds $25 billion in AUM to the $29 billion Montreal-based Fiera already managed primarily for institutions, as well as a strong retail base. A second all-Canadian deal saw **Matrix Asset Management** acquire the assets of 3-year-old **LeeSide Capital Management**, an institutional and wealth manager run by three partners who had formerly worked for Matrix subsidiary **Seamark**. Seamark recently lost it largest client, **Manulife Financial Corp.**, which accounted for one-quarter of Matrix's $1.9 billion in AUM.

The ongoing consolidation of the credit marketplace continued in the first half, with the private equity industry dominating activity. Ahead of its initial public offering in May, **Carlyle Group** made its fifth such acquisition since 2010, buying the management contracts on $2.8 billion of European collateralized loan obligation (CLOs) from **Highland Capital Management**. The transaction with Dallas-based Highland marks Carlyle's first European CLO purchase. Carlyle, with $16 billion in CLO assets, said it will continue to "seize attractive opportunities" for acquisitions. Highland, a specialist in alternative investments, retains its U.S. CLO business.

In a transatlantic credit deal featuring another private equity buyer, London's **CVC Capital Partners** acquired the CLO business of Philadelphia's **Resource America**, with the two companies combining their credit businesses into a new firm, **CVC Credit Partners**. Resource America, which received $25 million in cash and a one-third share in CVC Credit, said the combination will offer investors "a broader range of investment opportunities" and noted that the new company "will seek to raise additional capital to grow and expand this business." CVC Credit will manage $7.5 billion in CLO assets in the U.S. and Europe.

A strictly U.S.-focused private equity-related transaction saw **THL Credit Advisors** buy **McDonnell Investment Management**'s alternative credit unit, with $2.5 billion in CLOs. THL Credit said the purchase of **McDonnell Alternative Credit Strategies** and its portfolio of syndicated high-yield assets "is a natural extension of our direct-lending middle-market junior capital platform." THL Credit is the credit affiliate of Boston-based private equity firm **Thomas H. Lee Partners**. Chicago-based McDonnell Investment said the sale will allow it to focus on traditional fixed income investments. In a second all-U.S. transaction, **Kohlberg Capital Corp.** paid more than $50 million in cash and shares for **Trimaran Advisors** and its $1.5 billion in CLOs. KCC, a publicly traded middle-market investment firm, said the deal expands its **Kotonah Debt Advisors** CLO business, bringing AUM to $3.4 billion.

Asia's two emerging giants registered a significant level of activity in the first half. A domestic "Greater China" transaction saw publicly traded Hong Kong asset manager **Value Partners** pay more than $6 million for a 49% stake in China's **KBC Goldstate Fund Management Co.**, which has $150 million in AUM in seven funds. The deal is aligned with Value's focus on China, Hong Kong and Taiwan, and builds upon two transactions the company concluded last year in China and Taiwan. Value manages nearly $8 billion for institutions and individuals in hedge funds, ETFs and private equity funds. **Standard Chartered** and **UBS** joined two domestic Chinese players investing a total of $1.6 billion for a 16.5% stake in **China Cinda Asset Management**. A fund management-to-insurance firm, government-controlled China Cinda was created in 1999 as one of four companies purchasing bad loans from China's banks. The investors are expected to provide assistance in the development of China Cinda's asset and wealth management capabilities, among others, ahead of an expected public offering.

Japanese financial firms, increasingly seeking opportunities outside an aging and slow-growth domestic market, cut two deals in Asia's giants during the first half, including **Sumitomo Mitsui Financial Group**'s acquisition of a 20% stake in Beijing's **China Post & Capital Fund Management**. SMFG reportedly paid more than $60 million for its investment in the 6-year-old firm. In India — where SMFG took a small stake two years ago in one of the nation's largest privately held banks, **Kotak Mahindra** — **Nippon Life Insurance Co.** entered the challenging asset management market by paying $290 million for a 26% stake in **Reliance Capital Asset Management**. RCAM is India's second-largest asset manager with $19 billion in AUM, or a 13% market share. The deal — the largest asset management investment to date by a non-Indian company — builds on Nippon's 2011 investment in parent **Reliance Group**'s insurance business. Reliance said the additional partnership "cements and strengthens the relationship" between the two companies. The investment comes at a time when India is relaxing the rules on direct foreign investment in public companies in response to slower economic growth and an equity market that performed poorly last year.

In a second Indian cross border deal, Mumbai-based **L&T Finance** acquired **Fidelity Worldwide Investment**'s local mutual fund business, with newspapers placing the price around $100 million. Started up in 2004, Fidelity's Indian business had $1.7 billion in AUM, making it the 15th-largest asset manager in the nation. L&T Finance, the financial services arm of Indian conglomerate Larsen & Toubro, said the deal provides its 2-year-old asset management business with greater scale and an affluent customer base. Fidelity Worldwide, representing business outside North America for U.S.-based **Fidelity Investments**, has seen its AUM drop by one-third since 2006 to $210 billion as investors have shunned its equity-dominated fund business in favor of bond funds and alternative investments. London-based **Schroders** acquired 25% of **Axis Asset Management Co.** (AUM: $2.3 billion), a 3-year-old Mumbai-based fund manager that is part of **Axis Bank**. Asia-Pacific accounts for around one-quarter of Schroders' $320 billion in AUM, representing its second-largest market outside of Europe (including the U.K.).

Principal Financial, which last year made investments in three non-U.S. asset managers, expanded its presence in Brazil by acquiring 60% of **Claritas Administracao de Recursos** (AUM: $1.8 billion). The Sao Paulo-based firm manages a variety of funds and managed accounts for affluent clients and institutions. Since 1999, Principal has had a joint venture in that nation with **Banco do Brazil** providing pension and annuity products. Claritas cited Principal's "additional resources" while noting that it would maintain the preservation of its "management philosophy and investment culture." The Brazilian mutual fund industry accounts for around 85% of the overall Latin American market, with more than $1 trillion in assets and some projections placing the number as high as $1.8 trillion by 2015.

Wealth Management

The wealth management sector maintained a moderate deal pace in the first half, in line with the trend since the onset of the financial crisis, but there was some notable activity. Los Angeles-based **City National Bank** extended its wealth management business with the acquisition of **Rochdale Investment Management**, an established New York firm with nearly $5 billion in assets. CNB will combine Rochdale with **City National Asset Management** into a new firm, **City National Rochdale Investment Management**, with $18 billion in assets. Rochdale CEO Garrett D'Alessandro said the connection with CNB will expand his company's research and portfolio management capabilities while providing enhanced career opportunities for employees. The catalyst for the sale is the impending retirement of Rochdale's founder and chairman, Carl Acebes. In addition to New York, Rochdale has offices in five other states, while CNB operates throughout California, as well as in Chicago and New York.

Affiliated Managers Group took a stake in **Veritable, LP**, representing the first such deal through **AMG Wealth Partners**, LP, established by the parent last year to make investments in boutique wealth managers. Veritable is a 26-year-old suburban Philadelphia firm that manages $10 billion for 200 ultra high net worth families. In explaining the transaction, AMG chairman and CEO Sean Healey pointed to the favorable growth prospects for the wealth industry in general and for "institutional-quality wealth advisory firms" like Veritable in particular. AMG Wealth indicated it is continuing to scour the marketplace for deals.

Private equity firm **Lee Equity Partners** announced its intention to acquire one of the most widely known names in the mass affluent market, **Edelman Financial Group**, which has $17 billion in assets. Lee offered a 43% premium over the closing price of publicly traded Edelman at the time the deal was announced in mid-April, or a total of around $265 million. Edelman co-CEO Ric Edelman has established broad name recognition over the years through his radio and TV shows, media appearances and steady stream of investment books. But in a series of interviews after the deal was announced, he expressed frustration with the difficulty small publicly traded firms have attracting investors. Houston-based Edelman was known as Sanders Morris Harris Group until it changed the corporate name in 2011.

Two small but active buyers of wealth managers were in the market in the first half. Pennsylvania's **Bryn Mawr Bank Corp.** made its third acquisition of a wealth manager since 2008, picking up **Davidson Trust Co.** from **Boston Private Financial Holdings**. Founded in 1974, Davidson has $1 billion in AUM and, like Bryn Mawr, is based in the Philadelphia area. Bryn Mawr could pay as much as $10.5 million for Davidson, with about one-third of the amount in contingency payments over an 18-month period. With the acquisition, Bryn Mawr eclipses the $5 billion goal for assets it set several years ago and comes within striking distance of $6 billion. Bryn Mawr is representative of the growing number of smaller banks seeking to expand their wealth management businesses as part of an effort to diversify earnings.

Mariner Wealth Advisors of Kansas added its 13th acquisition since 2008 with the purchase of a majority interest in **Adams Hall Asset Management**. Founded in 1997 and based in Tulsa, Okla., Adams has $1.3 billion in AUM and a client list that extends to Dallas. The company, which will retain its name, said Mariner "will greatly enhance our ability to deliver for our clients." Owned by 6-year-old **Mariner Holdings**, Mariner Wealth is aiming to reach $50 billion in AUM within five years. Toward that end, the company — with around $12 billion in AUM following the latest acquisition — has said it will make additional acquisitions this year.

Another Midwest firm, Cincinnati-based **Bartlett & Co.**, engineered a management buyout from longtime owner **Legg Mason**. A value investor with $2.7 billion in AUM, Bartlett is the oldest independent registered investment advisor in the U.S., having been founded in 1898. Speaking to the local "Business Watch" news show, Bartlett president and CEO Kelley Downing said the employee-owned firm will now be able to "reinvest revenues into services that benefit our clients" without the oversight of a parent company. Legg Mason, which owns several boutique fund managers, told the *Cincinnati Business Courier* that the sale is consistent with its focus on higher-growth businesses.

In Portland, Maine, **Spinnaker Trust** and **Ram Trust Services** merged to create one large firm with $1.2 billion in AUM operating under the Spinnaker name. Ram said the deal ensures "another generation of exceptional personal service for our clients." In Tulsa, Okla., **Capital Advisors** added $50 million to the $980 million it already managed for wealthy individuals and institutions with the acquisition of **Southwest Financial Services**. David Cole, managing partner of Southwest, told *Tulsa World* the deal allowed its shareholders to exercise "a reasonable exit strategy to maximize the value of the business" and provides his company with greater scale.

In a transatlantic deal involving two of the most storied names in wealth circles, Rothschild family-controlled **RIT Capital Partners** acquired a 37% stake in **Rockefeller Financial Services**. RIT bought the shares from **Societe Generale Private Banking**, which acquired them just four years ago as part of the effort by both firms to extend their global footprint. An investment trust listed on the London Stock Exchange, RIT has net assets of $2.4 billion while Rockefeller has $34 billion in assets under administration. Lord Rothschild, chairman of RIT, told the *Financial Times* that he expects Europe to go "through a very tough period in the next five to ten years," making it "extremely important" to have "a strong presence in the U.S." The companies said they "intend to collaborate on investment solutions" and other areas of "shared expertise" to serve their clients and investors. Reuben Jeffrey, chief executive of subsidiary **Rockefeller & Co.**, told Reuters the deal combines two prominent names with a "long history of wealth creation and responsible stewardship."

A significant Latin American cross border deal saw Brazilian investment banking giant and asset manager **BTG Pactual** reportedly pay $600 million in cash and shares for **Celfin Capital**, a major Chilean investment bank, wealth manager and fund company. Celfin adds a total of about $10 billion in AUM to the near $90 billion BTG already managed and expands BTG's presence to Chile, Colombia and Peru. "We want to be a reference for corporations, institutional investors and high net worth individuals with interest or business in Latin America," said Andre Esteves, BTG's billionaire CEO. BTG, in the midst of a recent regional acquisition spree, went public in April. In Mexico, financial services firm **Corporacion Actinver SAB** picked up the local private banking business of **American Express**. Three years ago, the Mexico City-based firm acquired the local asset management business of **Prudential Financial**.

As part of its ongoing global expansion, **Royal Bank of Canada** acquired the Latin American, Caribbean and African wealth division of **Coutts**, the venerable British private client firm. Coutts, with more than $2 billion in AUM in that division, said the sale was driven by its decision to focus on "core markets." Coutts is owned by government-controlled **Royal Bank of Scotland**, which has been divesting assets as part of a restructuring. Wealth management accounts for around 16% of RBC's total revenue, with emerging markets accounting for just 3% of wealth management revenues. In Asia, **JPMorgan Chase** reportedly took a 19.9% stake in **Bridge Trust Co.**, a small trust company based in Zhengzhou, the largest city in centrally located Henan province. Over the past five years, JPMorgan Chase has doubled its Asian revenues to $6 billion.

For the second consecutive year, **BMO Financial Group** was represented among Western companies expanding in Asia, adding to its presence in China with the purchase of a 19.9% stake in **COFCO Trust Co.** (AUM: $5.7 billion). The Montreal-based bank already has a minority share in Shanghai-based **Fullgoal Fund Management** and last year acquired Hong Kong wealth manager **Lloyd George Management**. BMO, which also has a subsidiary bank in China, said the partnership with COFCO Trust "provides us with a leading entry point and greater flexibility to offer a wider variety of wealth management products directly or through third parties." COFCO Trust, founded in 2009, is a subsidiary of state-owned diversified conglomerate **COFCO Group**. BMO also acquired Portland, Ore.-based **CTC Consulting**, an ultra high net worth firm with $23 billion in assets under advisement and a niche in alternative investing. BMO will merge the firm with its U.S. wealth unit, **Harris myCFO**.

Alternatives

The hedge fund industry began a recovery from a difficult 2011 that saw the average fund generate a negative return of 4.8% (according to Hedge Fund Research) and nearly two-thirds end the year below the high-water marks that trigger performance fees (by **Credit Suisse**'s estimates). Investors were impatient, too, with net withdrawals topping $120 billion in the fourth quarter. But the new year brought better fortune, with equity long/short managers in particular generating an average 3.8% return in January alone, as wagers on banks paid off for many funds.

The industry as a whole went on to post its best opening quarter in five years, gaining nearly 5%, according to HFR, while assets reached a new high of $2.1 trillion. The tilt toward the industry's largest managers continued in the first quarter, with firms managing more than $5 billion accounting for over $18 billion in new capital and those with less having a combined net outflow of about $2 billion. The institutional investors who now dominate the flow of capital factored into what may have been the most intriguing deal of the first half: the **Teacher Retirement System of Texas**' $250 million investment in the world's largest hedge fund, **Bridgewater Associates**.

The non-voting minority stake provides TRS with a share of Bridgewater's profits and builds upon Bridgewater's existing relationship as a money manager for TRS. TRS chief investment officer Britt Harris also has a longstanding relationship with the hedge fund, including a brief stint as its CEO in 2005. In the fiscal year through August 2011, TRS had 4% of its $107 billion in assets in hedge funds, compared with 10% for private equity. TRS told *Barron's* the deal provides an opportunity "to invest in a premier, profitable, global investment management firm." The sale tracks the efforts of Bridgewater founder and billionaire Ray Dalio to reduce his shareholding. For TRS, the deal followed soon after an announcement that it had provided **Apollo Global Management** and **Kohlberg Kravis Roberts** with $3 billion each in mandates that will be managed in dedicated separate accounts. Those two agreements, combined with the investment in Bridgewater, underline the tighter relationships being crafted between large pension funds and high-profile alternative investment firms.

Kohlberg Kravis Roberts extended its alternative capabilities with the acquisition of New York's **Prisma Capital Partners**, a fund of hedge funds manager that KKR said provides investors with more customized and liquid alternative investment products than other funds. Founded in 2004 by several **Goldman Sachs** partners, Prisma has $7.8 billion in AUM, more than 90% from institutions. During the financial crisis, while many hedge funds employed "gates" to limit client redemptions, Prisma scored points with institutions for meeting withdrawal requests. The company has also carved a niche by identifying and using smaller, emerging managers in the customized portfolios it builds. As part of the deal, **Aegon** will sell its minority stake while remaining a "significant" investor in Prisma funds.

In a second fund of funds deal, **Lighthouse Partners** took a minority stake in **361 Capital**. The deal provides Florida-based Lighthouse (AUM: $6 billion) with access to 361's affiliated advisors and intermediaries while 361 said it expects to "leverage" Lighthouse's expertise to expand its lineup of "liquid alternative investment vehicles." In a management buyout, **Wells Fargo** sold a majority share in 3-year-old **Overland Advisors** to a new company controlled by the hedge fund's CEO and chief investment officer. Wells Fargo, which retains a minority interest, told Bloomberg the sale was not "driven by regulatory changes or requirements," although Overland's independent status is expected to simplify fund-raising. Wells Fargo has some $2 billion invested in Overland in a separate account. **Coast Asset Management** sold what has been a declining fund of hedge funds unit, reportedly to investment bank **Cantor Fitzgerald & Co.** California-based Coast said it was divesting the business to focus on its fixed income arbitrage investments.

Canadian mutual fund giant **CI Financial Corp.** acquired a "significant" minority interest in startup **Lawrence Park Capital Partners**, a Toronto-based fixed income hedge fund. CI also plans to invest in Lawrence's inaugural Credit Strategies fund and make the fund available to its wealthy clients. CI said the investment is "part of a strategy of seeking selected growth opportunities in the alternative asset management space." CI, which in 2010 took a minority stake in Canadian hedge fund **Red Sky Capital Management**, said it hoped to make another such investment later this year.

In a transatlantic deal between two established fund of funds companies, **Kenmar Group** of New York and Paris-based **Olympia Group of Companies** merged to form **Kenmar Olympia Group**. The new firm will have $3.3 billion in AUM across a broad range of strategies, with little overlap between the two companies' portfolios. Last year, London private equity firm **Richmond Park Capital Holdings** acquired Olympia, promising to position the firm for "the next stage of development." A transpacific deal saw New York-based emerging markets investor **Rohatyn Group** take a 60% stake in a Singaporean middle-market private equity firm, **CapAsia**. Rohatyn acquired the shares from Malaysian bank **CIMB Group Holdings**. Rohatyn, which in 2011 acquired 50% of Hong Kong private equity real estate firm **ARCH Capital**, said the latest deal "marks the continuation of [its] growth strategy in Asia." Six-year-old CapAsia has raised more than $500 million in capital commitments and has some $400 million in AUM with a focus on infrastructure projects in emerging Asian markets (excluding China and India).

Amsterdam-based seeding platform **IMQubator** formed a partnership with 2-year-old Hong Kong fund of funds manager **Synergy Fund Management** designed to seed emerging Asian hedge fund managers. IMQ, which includes Dutch pension fund giant **APG** as an investor, told Finalternatives that it believes "Asia has myriad opportunities for establishing a seeding platform accommodating emerging manager talents; in particular we are expecting to see some quite exceptional emerging managers from China in the coming years." *(See "Europe" for additional hedge fund deals.)*

There were two deals of note in the real estate advisory sector, including **USAA Real Estate**'s purchase of a minority stake in **Square Mile Capital Management**, an opportunistic investor in debt and equity. Founded in 2006 and based in New York, Square Mile has invested $2 billion for both institutions and private clients in three real estate funds, with the portfolio including hotel-related mortgages acquired from the Federal Deposit Insurance Corp. San Antonio-based USAA Real Estate said the deal extends the investment opportunities it can offer clients. USAA Real Estate is the advisory subsidiary of **USAA**, a financial services firm focused on active military and their families, as well as veterans.

In a European transaction, **Cordea Savills** of the U.K. acquired Germany's **International Property Asset Management**, a retail and office sector investor for institutions and family offices. The deal is in line with Cordea's strategy of building scale and services in key European markets, including Germany, where IPAM doubles Cordea's AUM in that market to $1.3 billion. Germany is the largest institutional investment market in Europe and has been a particular magnet for investors seeking a safe haven during Europe's economic crisis.

Europe

As observers awaited **Deutsche Bank**'s divestiture of the majority of its global asset management business, the largest European-centered transaction in the first half saw **Morgan Stanley** sell its British wealth manager **Quilter** (AUM: $12 billion) to European private equity firm **Bridgepoint Capital**. The $280 million deal was done through the **Morgan Stanley Smith Barney** unit. Morgan Stanley, which has divested several asset managers as part of its post-crisis reorganization, said the sale reflects its intention to focus on the ultra high net worth market in Europe and elsewhere. Bridgepoint, citing the "fragmented" but growing U.K. wealth market, touted the opportunities for Quilter "to accelerate its growth." In 2005, Bridgepoint acquired another British wealth manager, Tilney Group, selling it to Deutsche Bank the following year. (Separately, Morgan Stanley announced its intention to acquire another 14% of MSSB from **Citigroup**; *see "Securities."*)

In a transaction between two London firms, **Liontrust Asset Management** paid $19 million to acquire fund manager **Walker Crips Asset Managers**. The deal, done with parent **Walker Crips Group**, involved cash and shares and adds $950 million in AUM to the $2 billion Liontrust already managed. Walker has four diverse retail funds and two institutional segregated accounts that Liontrust said will strengthen "our fund management capability" and "create one of the strongest ranges of UK equity funds and teams." In 2011, publicly traded Liontrust acquired a small, emerging markets specialist, **Occam Asset Management**, while divesting two hedge funds. South Africa's **Investec**, which has cut two major wealth deals since 2010 — including last year's $370 million acquisition of London's **Evolution Group** — paid $42 million for Ireland's **NCB Group** (AUM: $1.7 billion), an independent wealth manager, broker and investment bank. The transaction was done through Investec's Irish unit and merges two complementary businesses in that market while providing NCB with the balance sheet and product strength of a larger parent.

In Europe's hedge fund industry, the major deal was **Man Group**'s acquisition of established fund and hedge funds manager **FRM Holdings** (AUM: $8 billion). Significantly, the deal involves no upfront payment, with pricing — capped at $83 million — to be determined over a three-year period by asset retention. The two London-based firms will merge their multi-manager businesses into one entity (operating under the FRM name) with $19 billion in AUM, making it the largest independent non-U.S.-based fund of funds business. In a fund of funds arena that has grown more challenging since the financial crisis, Man noted that the combined group would achieve $45 million in annual savings, helping to generate expected double-digit gains in Man's adjusted management fee earnings per share in 2013.

Several key European hedge fund deals had a common Swiss element, with the largest involving **Union Bancaire Privee** acquiring **Nexar Capital Group**, a fund of funds manager with some $3 billion in AUM and offices in London, New York, Paris and Jersey, Channel Islands. Nexar, started three years ago by managers in **Societe Generale**'s alternative asset management unit, has been growing rapidly, in part via acquisitions of **Ermitage Group** in 2011 and Alliance Alternative Asset Management in 2010. UBP said the Nexar deal demonstrates its "ongoing commitment to the alternative investments industry" and said the addition of Nexar will provide for a "broader platform, established global distribution capabilities and innovative solutions." UBP (AUM: $77 billion) has been attempting to rebound from the reputational damage done by its exposure to hedge funds run by Bernard Madoff. Last year, it acquired **ABN Amro**'s Swiss wealth manager and created joint ventures in Hong Kong and Taiwan.

Swiss private bank **EFG International** sold to management its remaining stake in London hedge fund **Marble Bar Asset Management**. The $32 million deal is in line with EFG's reorganization around its core private banking business and draws to a close the ill-timed $517 million investment EFG made in Marble five years ago. During the financial crisis that followed, Marble reversed the rapid growth trajectory it enjoyed after starting up in 2002, with AUM dropping below $1 billion from $4.4 billion at the time of EFG's acquisition. In 2010, EFG sold most of its majority interest back to management and in the process took a large write-off on its original investment. In an all-Swiss deal, **GAM** acquired **Arkos Capital** (AUM: $720 million), a 5-year-old manager of "low-volatility" funds that GAM said will "substantially enhance and expand our in-house single manager offering." For Arkos, the link to a larger firm provides for expansion potential in new markets in Northern Europe, the U.S. and Asia. GAM, with $48 billion in traditional and alternative assets, is a subsidiary of asset manager **GAM Holding**, which is the former asset management arm of **Julius Baer**.

In France, **Rothschild & Cie Gestion** merged its multi-manager unit with **HDF Finance**'s fund of hedge funds business into a new firm, **Rothschild HDF Investment Solutions**, with $5 billion in AUM. Rothschild & Cie Geston, the asset management arm of **Rothschild & Cie Banque Group**, will hold a 67% share in the new company. The deal does not include the bulk of Rothschild's asset management business.

Securities

Regional broker-dealer **Raymond James Financial** executed the most significant securities industry transaction in the first half by acquiring **Regions Financial Corp.**'s **Morgan Keegan & Co.** brokerage unit. The $1.2 billion cash deal, including a $250 million dividend from Morgan Keegan to Regions Financial, represents Raymond James' largest-ever acquisition. With the addition of Morgan Keegan's 1,200 brokers, Raymond James will have a total of more than 6,000 brokers while client assets will grow by nearly one-third to $336 billion. The deal valued Morgan Keegan at 1.3 times book and 1.2 times 2011 revenues. Raymond James said the combination will create stronger fixed income, equity research and investment banking units, noting that the acquisition "will allow us to continue to compete in an increasingly challenging marketplace." Regions Financial, a recipient of $3.5 billion from the Troubled Asset Relief Program (TARP), announced last year that it would sell Morgan Keegan as part of the effort to repay the government. The bank retained its Morgan Keegan asset management and trust businesses.

Three years after the creation of **Morgan Stanley Smith Barney Holdings, Morgan Stanley** advised **Citigroup** that it intends to boost its shareholding in their joint venture from 51% to 65%. Under the terms of the 2009 agreement, Morgan Stanley has a call option to acquire that additional 14% beginning June 1, 2012. The announcement initiated a 90-day period during which the two firms must negotiate a price, with an arbitrator to decide in the event those discussions fail. Morgan Stanley has the option to buy the entire firm in two additional stages in 2013 and 2014. MSSB was established through the merger of Citi's Smith Barney unit with Morgan Stanley's global wealth management group.

Another major U.S. broker, **Jefferies Group**, capitalized on an overseas distress situation in buying the **Hoare Govett** corporate brokerage business from government-controlled **Royal Bank of Scotland**. The deal, concluded at a "nominal sum," expands Jefferies' existing European investment banking and equities businesses, with Hoare Govett's brokerage ranking No. 4 for FTSE 100 clients. In the company's first-quarter conference call, Jefferies chairman and CEO Richard Handler called the transaction a "unique opportunity to advance our business with modest operating cost and no real use of capital in a period of challenge and industry consolidation." RBS, under pressure from the British government to pare back its investment banking activities and focus on retail banking, had acquired the storied Hoare Govett business as part of the multi-bank acquisition of ABN Amro in 2007.

Within the U.S., **Davidson Companies**, the largest employee-owned investment firm operating in the Rocky Mountain region and the Pacific Northwest, acquired California investment bank **McGladrey Capital Markets**, a subsidiary of **H&R Block**. The deal doubles the size of Davidson's investment banking business — placing it among the top-10 in middle-market transactions — and extends the firm's expertise into such industries as aerospace and defense, food and beverage, and healthcare. In a bid to enhance its electronic trading capabilities, **Cowen Group** acquired **Algorithmic Trading Management**, a provider of multi-asset-class algorithmic execution trading models. Cowen said the deal will provide clients of both firms with expanded options in trading and equity research.

Two Canadian banks crossed the border to make acquisitions: Through its U.S. wealth management unit, **Royal Bank of Canada** bought the clearing and custody businesses of Chicago-based **Mesirow Financial**; and **Bank of Nova Scotia** acquired **Howard Weil**, a Houston energy investment boutique that expands the bank's capabilities in that area in research, equity sales and trading. Outside North America, the **London Stock Exchange** will pay as much as $620 million for up to a 60% stake in London-based **LCH. Clearnet Group**, the world's leading clearing house for swaps. LSG said the deal is in line with its diversification strategy and will allow it to "promote greater innovation, choice and competition in the listed derivatives market." LCH.Clearnet is largely owned by its banking and brokerage clients. **Hong Kong Exchanges & Clearing** will pay $2.2 billion to acquire **LME Holdings** as part of a bid to tap a commodities market in which China is a major player. Charles Li, chief executive of HKEx, said the deal for the London Metal Exchange represents a "unique opportunity for us to acquire in one stroke a position of global leadership in the commodities market." ▲