Berkshire Capital Securities LLC

2012 | 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. Our partners have been with the firm an average of 12 years. We are recognized as a leading expert in the wealth management, money management, alternatives, real estate and broker/dealer industries. We believe our success as a firm is determined by the success of our clients and the durability of the partnership we help them to structure.

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Greek Tragedy

A fascination with Greece has traditionally been the purview of specialists in Antiquity. This elite group, generally operating in academia, focuses on the period of Greek influence and power from around the 7th century B.C. through the conquest by Rome and into the several centuries after the death of Christ. As 2011 rolled around, and Greece became the center of another local financial crisis with global implications, those academics had plenty of company. Suddenly, hundreds of millions of people were focused on the historic nation, including two groups of particular importance: investors and policy makers.

That a country with a population of 11 million people and a gross domestic product (GDP) of $300 billion could command so much attention — and cause such consternation regarding the world's financial health — adds another strange chapter to the now-lengthy and white-knuckled saga increasingly dubbed the "Great Recession." Unfortunately, the Greeks aren't alone. Following the October bailout agreement between Athens and the eurozone that delivered a 50% haircut to private investors holding Greek sovereign debt, two more significant tottering dominoes — Italy and Spain — saw their bond yields jump by percentage points rather than the usual and more staid basis point.

In Italy's case, rates in November topped 7% on the 10-year bond and approached 8% on two- and five-year paper. Elsewhere in the eurozone, Portugal joined Ireland in the junk bond heap. "Investors are increasingly loath to trust the debt of many eurozone sovereigns," wrote *Financial Times* economics columnist Martin Wolf. "That is the most important lesson of recent events." Warned the *Economist*: "The chances of the eurozone being smashed apart have risen alarmingly, thanks to financial panic, a rapidly weakening economic outlook and pigheaded brinkmanship. The odds of a safe landing are dwindling fast."

Faced with the prospect of financial disaster — and a fracturing of the eurozone — the area's dominant powers huddled in an attempt to add a key missing component to the compact: central fiscal control. By the first week of December, the outlines of what European Central Bank President Mario Draghi called a "new fiscal compact" emerged that would incorporate oversight in return for more aggressive rescue efforts by the ECB. German Chancellor Angela Merkol then laid out a similar plan in a December 2 speech before the German Bundestag, underlining her determination to save the euro. Meanwhile, led by the Federal Reserve, a number of the world's key central banks took action to chop the rates for short-term dollar loans to the ECB at a time when many private banks and investors have cut their exposure to Europe.

Across the Atlantic, Washington was conjuring up its own take on Antiquity, in the continuing Sybaritic approach it took to spending: In fiscal 2011, the federal deficit topped the trillion-dollar mark for the third year running, with the 2012 deficit projected to remain around the trillion-dollar threshold. Yet, in a global theater where virtually every patron was either screaming or thinking "fire," the U.S. remained a safe haven, with investors eagerly scooping up 10-year Treasury notes paying a paltry 2%. Buyers continued to include one of the world's great creditors, China, which holds more than $1.1 trillion worth of the instruments. "It seems the U.S. is the last man standing in this global crisis of confidence, for the time being," commented **Nomura**. Forgotten, it seemed, was Standard & Poor's controversial decision in August to downgrade by a notch the nation's pristine long-term debt rating.

As policy makers and regulators sought to diffuse this latest crisis, the silver lining remained hazy. Indeed, many observers are suggesting a protracted period of slow growth for the U.S. and Europe. In this view, the financial tsunami and its attendant costs has merged with two other gradually building waves to form a perfect economic and financial storm that will depress economic activity for years. The first wave is the challenge to a more robust employment market posed by technology and globalization — a 21st-century reality masked for many years by a housing and credit bubble that goosed consumption. The second: the looming budgetary pressures posed by a graying population that has been promised an expensive menu of retirement benefits. The response that financial probity and investors demand from governments — significant budget cuts from recent

Budgetary Blues

Central Government Deficits as % of GDP

	2009	2010	2011*	2012*	2013*
U.S.	11.6	10.7	10.0	9.3	8.3
Euro Area	6.4	6.3	4.0	2.9	1.9
Japan	8.7	7.8	8.9	8.9	9.5
OECD **	8.3	7.7	6.6	5.9	5.1

** Projected*
*** Excludes Chile & Mexico*
Source: OECD

elevated levels — appears to suggest a future in which governments have fewer resources to prime employment and consumptive demand.

In the U.S., the two American political parties have to date been unable or unwilling to build a consensus for action, in particular as both sides prepare their sound bites ahead of this year's presidential and congressional elections. Last November, a special congressional joint committee failed to hammer out an agreement to reduce the budget deficit and in the process set in motion a series of automatic cuts beginning in 2012, including elimination of the 2% employee payroll tax cut. Before year-end, however, Congress approved a two-month extension of the tax cut as well as extended unemployment benefits, leaving the testy negotiations for a longer-term agreement to the new year.

Speaking on Bloomberg Television in November after Congress' inaction, **Pimco** CEO and co-CIO Mohamed El-Erian placed the chances of another recession at one-third to half, calling such a prospect "terrifying" in light of the existing high levels of unemployment, moribund housing market, large fiscal deficit and negligible interest rates. "These are all conditions coming out of a recession, not going into a recession, so this is a worrisome time," he said. The Organization for Economic Co-Operation and Development (OECD) had warned in November that if no acton was taken to "counter pre-programmed fiscal tightening," the U.S. could "tip" into a recession that "monetary policy can do little to prevent."

Europe is looking even worse, with 2012 projections also heading south as the 2011 year wound down. Germany, a pillar of relative strength last year (projected GDP growth: 3%), in October set 2012 growth at just 1%, down from the 1.8% the Bundesbank figured four months earlier. In November, the European Commission placed growth in the European Union as a whole at 0.6% in 2012 and 0.5% for the euro zone, both down more than a point from June projections. The EU unemployment rate is expected to remain stuck around 10%. "All main indicators point to a stalled recovery with considerable downside risks," the Commission said.

Slow Gains

GDP Growth (Decline)

	2010	2011*	2012*
U.S.	3.0%	1.7%	2.2%
Euro Area	1.7	1.6	(0.3)
U.K.	1.8	0.9	0.6
Japan	4.5	(0.9)	1.9
China	10.4	9.1	8.4
India	8.7	6.5	6.5
Brazil	7.5	2.9	3.4
Global	4.1	2.7	2.5
World Trade Vol. *(growth in goods & services)*	12.4	6.6	4.7

** Projected*

Source: World Bank (January 2012)

Stocks Down, Bonds Up

U.S. Mutual Funds ($ billions)

	Dec. 2011	Dec. 2010	2011 Inflows (Outflows)
Stock Funds	5,207	5,588	(130)
Hybrid	835	796	30
Taxable Bond	2,390	2,160	137
Municipal Bond	497	474	(12)
Money Market	2,692	2,804	(124)

Source: Investment Company Institute

As in its missive on the U.S., the OECD opined that "Decisive policies must be urgently put in place to stop the euro area sovereign debt crisis from spreading and to put weakening global activity back on track." The OECD projects GDP growth this year of 1.6% among its 34 member nations and a "mild recession" for the eurozone, assuming among other baseline scenarios that policy-makers avoid sovereign defaults and "excessive fiscal tightening." But the OECD warned that "further contagion in sovereign debt markets" could "plunge the euro area into a deep recession with large negative effects for the global economy."

Equity markets naturally mirrored the stresses in the global economy, especially during the back half of 2011 as headlines grew increasingly shrill. By November, virtually every market in the world was down sharply for the year. Although the U.S. markets were relatively resilient by comparison, showing only single-digit drops, investors endured a roller coaster ride. For much of the first half of 2011, the Dow Jones Industrial Average was up as investors pinned their hopes on an improving economy and strong corporate profits. But June began a five-month slide for the Dow, including a 12% decline in the third quarter. In October, the index jumped 9.5% for its best one-month performance since 2002. With the onset of November, and plenty of bad news out of Europe, the Dow shed 6.1% the first four weeks of the month before turning up again on muted optimism about a solution to Europe's sovereign debt problem.

For many asset managers, the impact of volatility was predictable. In its fiscal half year through September 2011, **Legg Mason**'s net income and AUM were down 5% and 9%, respectively. **AllianceBernstein** saw its net income drop in the each of its first three quarters from the previous year's periods while AUM in the year through September declined 16%. Although **BlackRock** enjoyed strong growth in net income in the first three quarters (up 27%), AUM dropped 3% and suffered a sharper fall (9%) between the second and third quarters, as was the case across the industry. In the first 11 months of the year, only six of the 40 stocks in the Dow Jones U.S. Asset Managers Index delivered gains, with the index as a whole sharply below the S&P 500 index.

In the U.K., the story was similar. One example: **Henderson Group**, which paid $520 million for **Gartmore Group** in the first quarter, suffered a 12% decline in AUM between the second and third quarters. Hedge funds were not immune either, as London's **Man Group** reported a 9% drop in AUM during the same period. "You can't keep having bombs, so to speak, go off," **J.P. Morgan Funds** strategist Andrew Goldberg told *Businessweek* in summing up the hand's-off attitude of shell-shocked equity investors. "If the second you walk outside another one goes off, you're going to stay inside longer."

Amid the market chaos, asset managers and financial firms continued to seek opportunity in the form of outright acquisitions or investments. In total, there were 144 deals last year, a number in line with activity since 2009. But the value of transactions dropped sharply to $10.3 billion — a reflection, in part, of the falloff in blockbuster deals. High on the target list were asset managers who either specialize in emerging markets or are based in those markets. Structured products managers or portfolios were another target, as that mildly reviving market continued to consolidate following its collapse in the aftermath of the financial crisis. For the second straight year, the exchange traded funds (ETF) industry registered several deals, with two major fund managers — **Columbia Management Investment Advisers** and **Russell Investments** — gaining entry to the marketplace via acquisitions of small ETF firms. Private equity firms assumed a particularly robust presence in the marketplace last year, as **Carlyle Group** and **TA Associates** led the pack with multiple acquisitions. Carlyle, having filed to go public this year, has been diversifying its product portfolio to reduce dependence on its core business — a strategy employed by other public private equity firms.

The focus on emerging markets capabilities may have been the most intriguing trend last year. Although equities in those markets swooned in tandem with the developed world, asset managers lined up to position themselves for a future in which developing nations are expected to provide the best opportunities for superior returns. In the face of the financial crisis between 2007 and 2010, AUM in emerging markets grew by one-third to $4.2 trillion, and Boston Consulting Group figures that if growth "remains aggressive," the share of global AUM in these markets could triple to 15% over the next decade. In response to a BCG survey among European institutional investors about which asset classes would receive higher allocations in 2011, emerging market equity and debt came out on top.

Fewer Deals, More Money

Mergers & Acquisitions Worldwide

Number of Announced Deals

	2011	(vs. 2010)
Worldwide	40,314	(- 5.5%)
U.S.	8,198	(- 0.5)
Europe	14,985	(- 5.5)
Asia-Pacific	10,037	(- 7.8)

Value of Announced Deals ($ billions)

	2011	(vs. 2010)
Worldwide	2,564	(+ 7.0%)
U.S.	1,001	(+ 28.9)
Europe	711	(+ 10.5)
Asia-Pacific	445	(- 7.2)

of which (worldwide value, 2011)

Cross Border	35%
Emerging Markets *(by location)*	26%
Financials	14%
Private Equity	12%

Source: Thomson Reuters

Private equity firms were well-represented among the emerging markets buyers last year, including Carlyle and **Lovell Minnick Partners**, both of which invested in U.S.-based specialists. **Ashmore Group**'s $246 million deal for a majority share in Virginia's **Emerging Markets Management** joined two emerging markets specialists with complementary expertise in fixed income and equities, respectively. Iowa's **Principal Financial** — which has been expanding its international business for many years — was the most aggressive player in the emerging markets arena, scooping up three separate firms, including one of Mexico's larger pension businesses.

Goldman Sachs added to its small Indian business by acquiring that nation's leading ETF provider, **Benchmark Asset Management Co.**, while AllianceBernstein enhanced its position in Asia-Pacific with the purchase of a small asset manager in Taiwan. **Aberdeen Asset Management** crossed the Atlantic to acquire two Asian funds listed on the New York Stock Exchange and managed by **Blackstone Group**. **Julius Baer** took a minority share in Brazil's largest independent wealth manager, **GPS**, and cut a second deal with **Macquarie Group** that involved the purchase of the Australian firm's wealth business in Hong Kong and Singapore.

Emerging markets players themselves have stepped up their acquisitions in recent years, including in developed nations. In 2011, South Korea's largest fund manager, **Mirae Asset Financial Group**, acquired a majority stake in Canada's **BetaPro Management**, which runs one of the largest ETF businesses in that country under the Horizons name. Mirae also bought a small asset manager in Taiwan. **Cathay Financial Holding Co.** of Taiwan took a minority stake in **Conning** and formed a Hong Kong-based joint venture with the Connecticut-based institutional investor. Colombian conglomerate **Grupo de Inversiones Suramericana** acquired the Latin American insurance, pension and asset management businesses of **ING Groep**. Additionally, government-controlled ING unloaded its large real estate advisory arm, with **CB Richard Ellis** buying the lion's share of the business outside the U.S. and management taking the smaller U.S.-focused **Clarion Partners** unit, with the support of private equity firm **Lightyear Capital**.

Investment Management Transactions

	2007	2008	2009	2010	2011
Majority Equity	166	149	115	115	**119**
Minority Equity	26	29	5	15	**15**
Management Buyout	12	21	15	13	**10**
Total	**204**	**199**	**135**	**143**	**144**
Total Transaction Value ($B)	$37.4	$16.3	$31.7	$21.2	**$10.3**
Total AUM Changing Hands ($B)	$1,155	$1,148	$3,300	$1,134	**$756**

Source: Berkshire Capital Securities LLC

Canadian financial firms, among the fittest survivors of the financial crisis, continued to use their firepower to invest outside the domestic market, including Asia. **BMO Financial Group** bought Hong Kong-based **Lloyd George Management** while **Power Corporation of Canada** paid $275 million for a 10% stake in China's largest asset manager, **China Asset Management Co.** The largest cross border Canadian deal involved **Canadian Imperial Bank of Commerce**'s $848 million purchase of **JPMorgan Chase**'s 41% share of mutual fund provider **American Century Investments**.

The credit markets continued a two-year consolidation process in which private equity firms have been notable buyers. For the second year, those buyers included Blackstone Group and Carlyle Group, both of which continued to bulk up their sizable credit platforms. They were joined by a third private equity firm, **Apollo Global Management**, which last year began to trade on the New York Stock Exchange. Apollo picked up $3 billion in collateralized loan obligations (CLOs) through the acquisition of **Gulf Stream Asset Management**.

* * *

For 15 consecutive years through 2005, Legg Mason chief investment officer Bill Miller beat the S&P 500, an extraordinary record that placed him in the pantheon of legendary money managers and built his Value Trust fund into a behemoth with $21 billion in AUM. Then, in 2006, the streak ended, a presumed momentary blip that turned into a rout leaving Value Trust at the bottom of the performance pack. By 2011, the combination of poor performance and outflows had dropped AUM below $3 billion. Miller's announcement last November that he was throwing in the towel as a fund manager may well provide a demarcation line of sorts for an asset management industry in the throes of change.

One manifestation of that change is the end of an era dominated by active managers like Miller, who became victims of a financial crisis that caught virtually every one of them flat-footed and their investors exposed. As Boston Consulting Group states plainly in its latest report on the asset management industry, the crisis "has made investors much more likely to scrutinize and challenge their asset managers." In the Money Management section of this report, we note the Standard & Poor's report that during the tumultuous three years through June 2011, the vast majority of actively managed large-cap, mid-cap and small-cap funds underperformed their passive benchmarks. A **Bank of America Merrill Lynch** survey for the first 11 months of 2011 showed that just 23% of large-cap managers beat the S&P 500.

During that time, traditional equity index funds continued to make share gains to account for nearly 15% of all equity funds in the U.S. They have been joined by a dynamic ETF market that by October of last year was managing $1.4 trillion in AUM worldwide — nearly double the level in 2008. McKinsey suggests ETF assets could climb as high as $4.7 trillion by 2015. While the momentum has clearly shifted, we don't mean to suggest that active managers are going the way of the Model T, given their control of the large majority of assets. But even among active managers, there are changes afoot. Alternative managers are back in demand, and focused and nimble boutiques are also benefitting from the industry's dislocation. In the first quarter of 2011 in Europe, asset managers with fewer than 10 funds grabbed one-quarter of net inflows into cross border funds, according to Lipper — nearly eight times the level in 2009. The emerging markets specialists sought by buyers last year were all independent firms, with the largest managing no more than $19 billion and most considerably below that level.

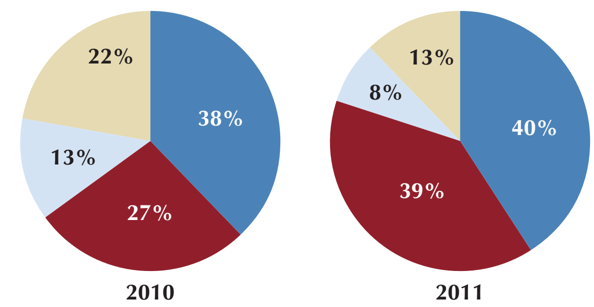
The financial crisis is reshaping the asset management landscape in other important ways, as financial services firms and banks either continue divesting, or begin the process of selling, all or part of their asset management arms. Europe's industry will likely see the most change. ING Groep last year continued to divest a range of business, including its Latin American insurance and pension business and large real estate advisory business. **Rabobank** raised capital to protect its excellent credit rating by selling its majority stake in Swiss private bank **Sarasin**. **Dexia**, the deeply troubled Brussels-based bank, is shopping its large asset management arm.

Other European banks under pressure to raise capital are expected to follow suit. **Credit Agricole** and **Societe Generale** are reportedly mulling a sale of their jointly held **Amundi Asset Management**, one of Europe's largest asset managers. Societe General is also looking at the sale of its U.S.-based asset manager, **TCW Group. Deutsche Bank** is soliciting bids for its global asset management business (excluding its European retail business). In publicly disclosing a "strategic review" of the business, the bank said it is focused "in particular on how recent regulatory changes and associated costs and changes in the competitive landscape are impacting the business and its growth prospects on a bank platform."

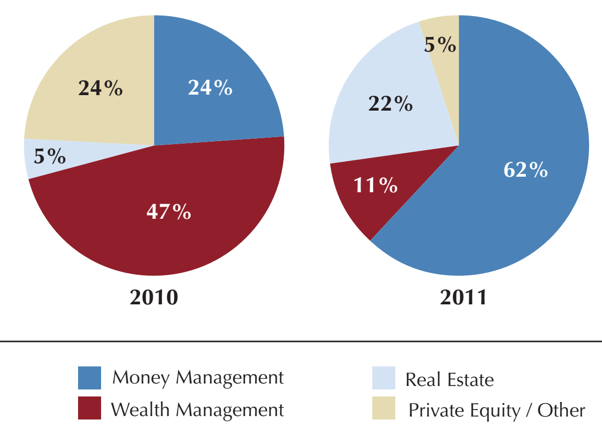
Worldwide, asset managers, like the larger financial services industry, must also continue to anticipate and grapple with the political ramifications of the financial crisis — namely, the potential for greater regulation and higher taxation. For example, new regulations are driving bank sales of private equity and other alternative units. Last year, Bank of America, **Barclays, Citigroup** and **HSBC** all sold private equity holdings. Regulatory costs and paperwork are also squeezing industry margins and opportunities. In a KPMG LLP survey last year, 61% of asset managers identified new regulations as the leading check on growth.

Who's Selling

Number of Transactions by Sector as % of Total



Value of Transactions by Sector as % of Total



Source: Berkshire Capital Securities LLC

Who's Buying

	2007	2008	2009	2010	2011
Money Management	30	48	34	37	**34**
Wealth Manager	38	29	23	19	**28**
Financial	22	28	16	22	**26**
Bank	43	34	14	11	**15**
MBO	12	21	15	13	**10**
Securities Firm	16	4	11	17	**9**
Real Estate Manager	14	2	5	6	**4**
Trust Company	4	7	8	5	**3**
Insurance Company	7	7	2	5	**2**
Other	18	19	7	8	**13**
Total	**204**	**199**	**135**	**143**	**144**

Source: Berkshire Capital Securities LLC

Looking forward, the jarring trends we note above will continue to reshape an industry that nevertheless remains central to the smooth functioning of the global economy, in particular as the baby boomer generation prepares for retirement and the generations that follow plan for a future that could well incorporate a much lower level of security. As the industry prepares for that future, we expect to see a fairly robust level of dealmaking, with the recent tilt toward expanding emerging markets capabilities likely to remain an ongoing theme.

Money Management

Since the start of the financial crisis, U.S-focused equity managers have been taking it on the chin. In the three years through 2010, domestic equity funds suffered annual net outflows, according to Investment Company Institute data, as chastened investors swore off stocks in search of safer havens. Moreover, in 2010 — when domestic equity funds recorded net outflows of $96 billion — an ICI survey revealed that just 22% of households headed by someone younger than 35 were willing to take "above average or substantial investment risk." That compares with 30% a decade earlier.

The negative trend continued in 2011, with net outflows for equity funds in the first three quarters at $63 billion, 73% higher than during the same period in 2010. Within the context of that downbeat story, traditional equity index funds have proved a brighter sidebar, registering total net inflows between 2008 and 2010 of $70 billion and share gains since 2007 of three points to account for 14.5% of all equity funds. Small wonder: Research last year from Standard & Poor's showed that in the three years through June 2011 "characterized by volatile market conditions," the S&P 500 index outperformed 64% of all actively managed large-cap funds. Mid-cap and small-cap funds showing similarly uninspired results against their benchmarks.

The star funds have been falling alongside the run-of-the-mill. One prime example: The Fairholme fund, whose manager Bruce Berkowitz was named domestic fund manager of the decade in 2010 by Morningstar. In the first half of 2011, Fairholme lost 26% of its value and fell to the bottom of Lipper's rankings in its multi-cap value category. The reason: Berkowitz made big bets on beaten-down financial services stocks that continued to decline. By the end of last summer, the combination of poor performance and withdrawals led AUM to drop more than a third to $13 billion. Bill Miller of **Legg Mason**, another storied fund manager and value investor, announced in November that he would no longer run the Value Trust fund following six years of under-performance. Miller's fund beat the S&P 500 index each year between 1991 and 2005, but since then has seen AUM plummet from about $21 billion in 2007 to $2.8 billion.

For a number of money management buyers, the response to the retreat from active U.S. equity funds has been simple: add capabilities in hotter sectors. In 2010, that meant chasing fixed income specialists. Last year, emerging markets took center stage, with buyers and sellers in developed markets teaming up in both domestic and cross border deals, such as London-based **Ashmore Group**'s $246 million acquisition of Virginia's **Emerging Markets Management** *(see Cross Border)*. Within the U.S., **Lovell Minnick Partners**' purchase of a minority stake in **Matthews International Capital Management** was particularly noteworthy. The largest U.S.-based dedicated Asian investment specialist, Matthews was founded in 1991 and has $19 billion in AUM — an amount that rose more than 50% between 2010 and 2011. From its base in San Francisco, the company has also been expanding distribution outside the U.S., making its funds available beginning in 2010 to investors in several European markets.

In an interview last year with London's *Citywire*, Matthews executive vice president Jonathan Schuman said the company's investment philosophy involves targeting "high-quality firms with sustainable earnings and cash flow" that can survive Asia's "inevitable" volatility. "More and more investors now like fund managers that stick to their knitting," he added. "We are a specialist firm, dedicated to Asian markets and nothing else." Lovell Minnick, an established private equity player based in Los Angeles and Philadelphia, has interests in several asset managers, but Matthews represents its first investment in a dedicated international investor. In another emerging markets deal of note featuring a private equity firm, **Carlyle Group** purchased 55% of New York hedge fund **Emerging Sovereign Group** *(see Hedge Funds)*.

Last year, emerging markets took center stage, with buyers and sellers in developed markets teaming up in both domestic and cross border deals, such as London-based Ashmore Group's $246 million acquisition of Virginia's Emerging Markets Management.

Most of the emerging markets deals crossed borders, however. **Goldman Sachs** expanded its presence in India's fund industry through the acquisition of a leading exchange traded fund provider, **Benchmark Asset Management Co.** Goldman adds $700 million in AUM, reportedly for a price of $29 million, with Benchmark providing an onshore presence to complement Goldman's existing offshore Indian fund business. Goldman, which derives a tiny proportion of its Asia-based revenue from India, said the deal "illustrates our commitment to expand" in the market. (Asia accounted for 15% of Goldman's revenues in the first six months of 2011.) Last year, India began the process of relaxing rules restricting the purchase of domestic mutual funds by overseas retail investors. In a second India-related deal, **Aberdeen Asset Management** of the U.K. — which over the past two years has enjoyed rapid expansion in the U.S. — acquired the New York Stock Exchange-traded India and Asia Tigers funds run by **Blackstone Group**. Blackstone is exiting the business of managing publicly listed closed-end Asia-focused investment companies. The India Fund, established in 1994, has $1.2 billion in AUM; Asia Tigers has $60 million.

In another Asia-related transaction, **Conning** of Connecticut formed a joint venture institutional asset manager in Hong Kong with **Cathay Financial Holding Co.** of Taiwan. As part of the deal, Cathay will pay $19 million for a 9.9% stake in Conning, which was acquired in 2009 by private equity firm **Aquiline Capital Partners.** A fixed income specialist, Conning manages $77 billion in assets, primarily for insurers in North America but also for Cathay's life insurance unit. Cathay, the largest financial holding company in Taiwan, also has banking and securities businesses. The appeal of Asia-Pacific for Conning: trillions of dollars in regional insurance company assets, only 10% of which is managed by third parties. In a second deal, Conning reached a multiyear agreement with **Phoenix Companies** to manage that company's publicly traded fixed income general accounts insurance assets (AUM: $8 billion) and to acquire subsidiary **Goodwin Capital Advisers**, a total-return fixed income manager. **AllianceBernstein** expanded its Asia-Pacific presence to a fourth market by acquiring **Taiwan International Investment Management**, a fund manager with $290 million in AUM. Taiwan is a particularly lucrative mutual fund market in Asia, although a new fee disclosure rule is expected to weigh on profitability.

Principal Financial, which has been adding capabilities in emerging markets for several years, cut three such deals in 2011. The first involved the $198 million purchase of **HSBC**'s Mexican pension business (AUM: $2.9 billion), which Principal merged with its existing business to become No. 6 (with $4.5 billion in AUM) in that nation's consolidating "Afore" private pension scheme. Since 2008, Principal has registered a 32% average annual growth rate in its Afore business. As part of the deal, HSBC agreed to establish an exclusive distribution arrangement for Principal through its large branch network (a provision subject to regulatory approval). In a London-based deal, Principal paid $66 million for 74% of **Origin Asset Management** (AUM: $3 billion), a 6-year-old global equity manager that invests in both established and emerging markets. Principal cited Origin's emerging markets capability as well as its expertise in global small- and mid-cap investing, "where additional high-quality investment capacity is much sought after, but in relatively short supply." Origin partners retained the rest of equity and will reinvest a "substantial" portion of the proceeds back into their funds.

Money Management Transactions

	2007	2008	2009	2010	2011
Number of Transactions	62	77	65	54	**58**
Combined Value ($B)	$15.1	$8.7	$25.1	$5.1	**$5.8**
Total Seller AUM ($B)	$718	$683	$3,011	$357	**$450**
Average Deal Size ($M)	$244	$113	$386	$95	**$100**
Average Seller AUM ($B)	$11.6	$8.9	$46.3	$6.6	**$7.8**

Source: Berkshire Capital Securities LLC

In its third transaction, also in London, Principal added emerging markets know-how in fixed income by purchasing a majority share in London's **Finisterre Capital**, a 9-year-old hedge fund with $1.6 billion in AUM. Principal paid $85 million upfront with a contingent payment by 2013 that could add another $30 million. In line with Principal's "multi-boutique model," Finisterre will retain its name. Principal said Finisterre will benefit from its global infrastructure, including "product development expertise and best-practice support." During its second-quarter conference call, Principal said it expects AUM for Finisterre and Origin to climb three to five times over the next five years. In an interview with the *Financial Times*, Jim McCaughan, head of Principal Global Investors, said "one of the features" of the next two decades "will be the continued importance of having skills and talent in emerging markets. We have a lot already, but there will always be the need to have more capability, partly through acquisitions."

Within London, **Liontrust Asset Management** acquired **Occam Asset Management** in a bid to capitalize on that firm’s emerging markets funds business (AUM: $200 million). Occam, founded in 2007, manages funds targeting Asia and other global emerging markets. By contrast, Liontrust’s investment focus is in Europe. The deal marks a change in tone for publicly traded Liontrust (AUM: $2.1 billion), which has been engaged in a restructuring since the departure in 2009 of its two star managers and the precipitous drop in AUM that followed. (The managers, Jeremy Lang and William Pattisson, subsequently started their own London-based fund company, **Ardevora Asset Management**.) Last year, as Liontrust’s assets began to turn up, the company declared a “sound platform to evaluate other opportunities to accelerate growth,” including acquisitions. At the same time, Liontrust sold two high-yield hedge funds to **Avoca Capital** of Dublin, a long-only credit fund manager with $8 billion in AUM. *(See Cross Border for additional information about emerging markets-related deals.)*

The consolidating and reviving credit market continued to draw buyers last year following an active 2010 for such transactions, with collateralized loan obligations again the focus. The CLO market picked up in the first half of 2011, with new issues reaching the highest point in three years.

The exchanged traded funds market — which recorded double-digit growth in the first half of 2011 and which McKinsey predicts will more than double worldwide to between $3.1 trillion and $4.7 trillion by 2015 — experienced significant activity for the second consecutive year, drawing a number of major asset managers. The largest manager was **Columbia Management Investment Advisers**, which acquired **Grail Advisors** as its entry point to actively managed ETFs. The acquisition gives Columbia the Securities & Exchange Commission (SEC) green light to launch its own line of actively managed ETFs, which the company said it intends to do “over time.” Grail, founded in 2008, had five actively managed subadvised products but struggled to generate sales, with AUM of only $20 million. Columbia, acquired by **Ameriprise Financial** in 2010, plans to rebrand the funds and manage them directly.

Russell Investments also used an acquisition to enter the ETF marketplace, buying a small fund of funds manager, **U.S. One** (AUM: $10 million). Russell, whose equity indexes are widely employed by asset managers, had been seeking SEC approval for two years to create ETFs. Following the acquisition, Russell rebranded the acquired funds while maintaining the structure and launched its own line of more narrowly focused ETFs, including “Low P/E” and “Growth at a Reasonable Price” products. Russell explained that it is seeking to “give investors access to actual investment approaches, rather than simply a broad market, style or sector index,” or what one executive dubbed a “me too” approach.

The private equity industry, evident in virtually every asset management sector last year, had its hand in the ETF market, as New York’s **Millenium** led a $70 million secondary share purchase of **ETF Securities**. ETFS is a commodity specialist with more than 200 products whose AUM had jumped fourfold between 2009 and the time of the deal, to $27 billion. The London-based company has been expanding in the U.S., where it has $4 billion in AUM. Millenium, with nearly $1 billion in AUM, primarily invests in technology companies, including Facebook and Twitter.

In a cross border ETF deal featuring an emerging markets buyer, South Korea’s **Mirae Asset Financial Group** acquired a majority stake in Canada’s **BetaPro Management**, which runs one of the largest ETF businesses in that country under the Horizons name. Mirae also gained BetaPro’s minority shareholding in **BetaShares**, an ETF provider in Australia. Mirae paid about $90 million for the 58% share held by Toronto-based private equity firm **Jovian Capital Corp.**, and acquired the shares of other minority owners. BetaPro has some 70 ETFs and $3 billion in AUM, including actively managed, leveraged and inverse products. Mirae, South Korea’s largest fund manager, has its own line of ETFs in Hong Kong with $1 billion in AUM. The head of Mirae’s ETF business, Tae Young, had been a portfolio manager in the U.S. with a firm that subadvised BetaPro products. BetaPro CEO Adam Felesky said the association with Mirae will allow it to “expand into other international markets” and develop innovative products. In a second deal, Mirae acquired a majority stake in **Taiwan Life Insurance** subsidiary **TLG Asset Management** of Taiwan (AUM: $270 million). The transaction allows Mirae to provide investors in that market with both onshore and offshore products and completes a “Greater China” circle that incorporates the firm’s Hong Kong presence and a pending mutual fund joint venture in China.

The consolidating and reviving credit market continued to draw buyers last year following an active 2010 for such transactions, with collateralized loan obligations again the focus. The CLO market picked up in the first half of 2011, with new issues reaching the highest point in three years, but slipped in the third quarter on larger economic concerns, including the European sovereign debt crisis. Acquisition activity remained steady, however, with several private equity giants represented among the buyers, including Blackstone Group, which tapped the CLO market for a second consecutive year in acquiring Dublin-based European leveraged loan manager **Harbourmaster Capital**. The company, which manages and advises $11 billion in assets, will be wrapped into Blackstone's large credit asset manager, **GSO Capital Partners** (acquired three years ago), making that unit one of the largest European leveraged loan investors. GSO has a total of $45 billion in AUM.

Another publicly traded New York private equity firm, **Apollo Global Management**, cut two credit-related deals, the largest for fellow New Yorker **Stone Tower Capital**. Stone Tower, founded in 2001, manages $17 billion in assets in a variety of corporate credit funds through 12 CLOs, separately managed accounts, credit opportunity funds and structured credit funds. Apollo said the transaction "enhances our significant scale and diversity as a leading global credit manager." The deal also makes Capital Markets the largest segment in Apollo's business, accounting for nearly half the company's total AUM of $82 billion. The second deal involved North Carolina's **Gulf Stream Asset Management**, a 9-year-old firm that manages 10 CLOs with more than $3 billion in assets. In explaining the sale, Gulf Stream pointed to the consolidating marketplace and said its investors "will benefit from Apollo's leading global integrated investment platform and its credit and capital markets expertise."

The third major private equity firm to tap the credit markets was Carlyle Group, which acquired $500 million in a CLO management contract from **Wells Fargo**'s **Foothill Group**. In total, Carlyle has nearly $13 billion in CLOs. Other firms that made CLO acquisitions included **Resource Capital Corp.**, which gained $1.9 billion in assets through the acquisition of **Churchill Pacific Asset Management**; and **Citigroup**, which bought the management responsibilities for four CLOs from **DiMaio Ahmad Capital**, amounting to $2 billion in AUM. With the addition of the CLOs, **Citi Capital Advisors**, the bank's alternatives platform, manages some $9 billion in assets in a variety of credit products. In Europe, **Rothschild** tripled the CLO holdings in its established European leveraged loan portfolio by acquiring **Elgin Capital**, with some $2 billion in AUM. In a transatlantic deal, **Ares Management** of Los Angeles gained $2 billion in European CLOs and other credit assets through the purchase of **Indicus Advisors** of London, which was half-owned by private equity firm **Cinven**. Ares was reported to have made two other credit-related acquisitions last year, including a European CLO. Ares, a private equity firm founded in 1997, has seen its committed capital more than double since 2007 to $41 billion.

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Within the U.S., there were several deals of note involving institutional managers and mutual funds. Once again, prominent private equity firms were among the buyers. Boston-based **TA Associates** acquired 54% of **Stadion Money Management** (AUM: $6.7 billion), a 20-year-old Georgia firm that offers two tactical ETF funds as well as separate accounts and management of corporate retirement accounts. TA said Stadion's "early embrace of tactical asset allocation investment strategies has positioned it as a leader among its peers." New York's **Warburg Pincus** took a majority stake in the **Mutual Fund Store**, a fast-growing Kansas-based investment advisor with more than 70 offices nationwide and $6.5 billion in AUM that targets the mass-affluent market. In an interview with the *Kansas City Business Journal*, Adam Bold, founder and CEO of 15-year-old Mutual Fund, said Warburg offered "tremendous resources, and not just from a capital standpoint, but with marketing, IT and other aspects as well."

In a third private equity deal, dedicated asset manager investor **Rosemont Investment Partners** of Pennsylvania added to its portfolio by taking a 30% stake in **Piedmont Investment Advisors**, a fast-growing North Carolina institutional manager with $3.5 billion in AUM. Piedmont invests in both equities and fixed income. One institution that Rosemont bought out was pension giant **Calpers**, which invested in Piedmont in 2007 as part of its manager development program. Prior to the investment from Rosemont, Piedmont made its own purchase, of Virginia's **Shenandoah Asset Management**, a small equity specialist.

Touchstone Investments acquired 17 mutual funds from **Old Mutual Asset Management** that it will rebrand, although a majority will continue to be subadvised by OMAM-affiliated managers. Based in Cincinnati, Touchstone has carved a niche offering subadvised mutual funds from "best-in-class institutional money managers" across a variety of investment classes, including alternatives. With the $2.1 billion in AUM it gains from the deal, Touchstone's AUM approaches the $10 billion level. Touchstone is owned by life insurer **Western & Southern Financial Group**. OMAM, the U.S.

asset management unit of London-based **Old Mutual plc**, operates through 18 affiliates with combined AUM of $260 billion. During 2011, OMAM instituted a management and structural reorganization designed to ignite growth, including the appointment of a new president and CEO, Peter Bain. **UMB Financial Corp.** asset management subsidiary **Scout Investments** entered the marketplace for the second consecutive year, acquiring two fixed income mutual funds from **Frontegra Asset Management** with a total of $500 million in AUM. The funds had been subadvised by **Reams Asset Management**, acquired by Scout in 2010.

Within Europe, the largest domestic deal took place in January 2011 and saw **Henderson Group** pay $520 million for **Gartmore Group** (AUM: $27 billion), in a tie-up between two of London's best-known independent mutual fund companies. The all-shares transaction created the sixth-largest retail-oriented fund manager in the U.K., with $125 billion in AUM, and merged two complementary businesses. Gartmore expands the Henderson portfolio to include global and emerging markets equity products while adding a broader range of hedge funds. The deal marks the second recent acquisition of a high-profile U.K. fund manager by Henderson, which also purchased **New Star Asset Management** in 2009.

Both targets had also seen their share of public setbacks at the time of the deals, in Gartmore's case involving the departure of a star manager and the suspension of a trader suspected of inappropriate activity. As a result, Henderson was able to pay less than half the price Gartmore fetched

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when it went public in late 2009. Andrew Formica, chief executive of Henderson, said Gartmore's "recent travails" should not overshadow its brand recognition or performance. "By bringing across fund managers and integrating the business onto our own platform, we will be able to enhance margins significantly," he said. Gartmore's higher-margin products and stronger tilt toward retail investors (two-thirds of its client base) were evident when Henderson reported first-half results, as operating margins rose six points from the 2010 half-year period to 36%. *(For other European deals, see Cross Border.)*

Wealth Management

The wealth management industry remains in a state of flux, as evidenced by several recent surveys, but that incorporates some positive indicators. Importantly, investors appear ready to embrace their wealth managers again. A Spectrem Group survey last year showed that the number of individuals with $1 million to $4.9 million in investible assets who wish to be "actively involved" in the daily management of their investments dropped 18 points between 2010 and 2011 to 47%. Investors with up to $25 million are only slightly more hands-on, at 50% — down 13 points from 2010. Investing has also lost that certain *je ne sais quoi:* Only 45% of millionaires say they enjoy the rigorous process, a drop of 19 points since 2009.

The 2011 **Merrill Lynch** Capgemini World Wealth Report had a similarly positive cast for the industry. In tandem with a recovery of their assets, the survey shows that 98% of millionaires "have trust and confidence" in their individual advisors and 88% feel positively about the firms. That sentiment reflects a quantum leap from 2008, when nearly half said they were losing trust in their advisors and firms. At the same time, the report cautions that investors remain chastened by recent experience, tilting toward fixed income and cash investments. "Amid this mixture of trust and misgivings among [high net worth] investors," said Capgemini, "firms and advisors must continually demonstrate their value and relevance to help HNWIs meet their changing and complex needs."

Scorpio Partnership's annual Key Performance Indicator survey of 200 private banks worldwide showed an 11% increase in AUM in 2010 while raising a red flag: Although clients continued adding money to their accounts, the rate of net new money dropped 19% from 2009. Moreover, the increase in AUM was largely the result of investment performance, Scorpio said, particularly from international markets. "The parallel positive and negative line-up of data points for the sector reveals an industry to some extent stuck in neutral," the company opined.

The industry's challenges show up in weaker margins, although consultants surveying the industry report slightly different findings. Merrill Lynch Capgemini says the aggregate pretax profit margin among a "select group" of major financial services firms reporting wealth management results dropped more than six points between 2006 and 2010. And while acknowledging that the decline compares very favorably with the financial services industry as a whole, the report notes that the negative trend has been continuous since 2006. The issues: increased costs for compensation and regulation combined with clients favoring lower-margin conservative investments. "These dynamics," the report says, "illustrate the added pressure on firms to demonstrate a value proposition for which HNW clients are willing to pay."

Boston Consulting Group's latest report on wealth management showed "wide variations" in margins, costs and AUM growth. While offering the industry kudos for overcoming "tremendous adversity" in recent years and saying the "sustained recovery of global wealth bodes well for its future," the consulting firm adds: "But the positive signs should not be misread as a return to normal. A number of disruptive forces, including increased regulatory oversight and changes in client behavior, are rewriting the rules of the game — both literally and figuratively."

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The mixed prevailing winds may contain part of the explanation for another steady if largely unspectacular year for dealmakers in the wealth industry. Transactions, which reached a high of 87 in 2007, numbered 56 in 2011, slightly above the average of 43 in the two prior years but minus the large bank distress sales that played out in 2009-2010, such as **M&T Bank Corp.**'s acquisition of **Wilmington Trust**. However, the industry continued to attract a number of brand-name buyers, including **BNY Mellon, Carlyle Group** and **SunTrust Banks** in the U.S.; and **Investec, Julius Baer** and **Union Bancaire Privee** in Europe.

In the U.S., Carlyle Group made a minority investment in **Avalon Advisors**, a 10-year-old wealth and institutional manager — one of several asset management transactions Carlyle concluded last year that underline the private equity firm's diversification strategy. Avalon, whose founding partners include **Goldman Sachs** alumni, has grown into one of the largest independent asset managers in Houston, with AUM jumping from $525 million in 2002 to $4 billion at the time of the deal. **Platform Partners**, a Houston private equity firm that is also a minority shareholder, will take part in the recapitalization of Avalon, which plans to use the money to expand its footprint and the link to Carlyle to extend the products it can offer clients. Founding partner Robert Gauntt said the deal "is in line with our desire to maintain operating independence with a partner who understands our business, our client base and works collaboratively with management." Carlyle made the investment through its $1.1 billion **Carlyle Global Financial Services Partners** fund.

In a bid to expand its existing sports and entertainment wealth business, SunTrust Banks acquired **CSI Capital Management**, an established wealth manager with a similar niche and $1.5 billion in AUM. CSI is based in San Francisco with offices in three other states. SunTrust entered the entertainment niche 20 years ago in Nashville targeting country music artists, but ultimately expanded to wrap in other parts of the entertainment world, including sports. As part of a more aggressive effort to court athletes, the bank opened a San Diego office in 2010 headed by a former CSI employee. In an interview that year with *On Wall Street* magazine, Thomas Carroll, SunTrust managing director, spelled out part of the appeal of athletes: virtually recession-proof contracts. SunTrust, which last year paid off loans from the Troubled Asset Relief Program (TARP), generates 10% of its revenue from wealth and asset management.

BNY Mellon continued its boutique strategy by acquiring Chicago's **Talon Asset Management**, an established mid-cap specialist with $800 million in AUM, primarily in separately managed accounts. The deal gives BNY Mellon a presence in the third-largest wealth market in the U.S., where Talon has been operating since 1994. BNY Mellon has existing businesses in the area, including asset servicing and treasury services. The bank's wealth business accounts for 6% of fee revenue. Talon's hedge fund and private equity businesses were not included in the transaction. Another Chicago firm, **Envestnet, Inc.**, acquired **FundQuest Inc.** of Boston. The $24 million deal merges two technology driven turnkey asset management providers serving the wealth management industry and builds off a 2010 services agreement between the companies. FundQuest, owned by **BNP**

Paribas and founded in 1993, has $15 billion in assets under management and administration (BNP retained FundQuest's European operation).

Envestnet, which went public in 2010 and has set a goal of 20% annual revenue growth, provides more than 20,000 advisors with customized portfolios and back-office support, including an open architecture model that incorporates 1,200 investment products. The 12-year-old company has $69 billion in assets under management and administration, with average annual asset growth of 36% in the five years through 2010. Envesnet said it will capitalize on FundQuest's "track record and deliver even better solutions for our expanded client base."

Wealth Management Transactions

	2007	2008	2009	2010	2011
Number of Transactions	87	80	47	39	**56**
Combined Value ($B)	$11.6	$5.6	$5.2	$9.9	**$1.1**
Total Seller AUM ($B)	$227	$388	$246	$518	**$80**
Average Deal Size ($M)	$133	$70	$111	$254	**$19**
Average Seller AUM ($B)	$2.6	$4.9	$5.2	$13.3	**$1.4**

Source: Berkshire Capital Securities LLC

Following a year of relative inactivity, **Focus Financial Partners** made four investments in 2011 to expand its affiliate model, the largest of which involved Boston's **Colony Group** (AUM: $1.3 billion). Founded in 1986 and ranked among the top independent wealth advisors by *Barron's*, Colony also has offices in Washington, D.C., and Florida. Colony president and CEO Michael Nathanson told *Investment News* that Focus can provide the "financial resources to further develop our growth strategy and help us access top talent and better technologies" while fostering continued independence. Another aggressive buyer, **United Capital Financial Advisors** of California, cut several deals last year for geographically diverse firms that added more than $2 billion to the $11 billion in assets it already managed. The key one involved **Zirkin-Cutler Investments** (AUM: $1.6 billion) of Bethesda, Md. — the largest of the 30-plus deals United has made for brokers and wealth managers in its six-year history. Zirkin-Cutler was started in 1973 and acquired 14 years ago by seller M&T Bank Corp.

United, whose goal is to build a national footprint, said it will continue an aggressive search for acquisitions, targeting local firms with under $1 billion in AUM. Toward that end, the company is well-capitalized, counting two private equity firms among its investors: **Grail Partners** and **Bessemer Venture Partners**. In 2009, Focus Financial received a $50 million cash infusion from two private equity firms: **Polaris Venture Partners** and **Summit Partners**, which was an original investor in 2006. Another private equity firm, **Rosemont Partners** of Pennsylvania, took a minority stake in **Westmount Asset Management** of Los Angeles, which manages $1.4 billion for high net worth clients and institutions. The recapitalization will be used in part to expand equity in Westmount beyond the two owners.

Another firm with aggressive expansion plans, **Mariner Wealth Advisors** of Kansas, enhanced its geographic reach with the purchase of Cleveland-based **CBIZ Wealth Management**, part of publicly traded financial services firm **CBIZ Inc.** CBIZ Wealth has a presence in seven U.S. cities, including Kansas City, and $360 million in client assets. In a Q&A for its clients, CBIZ Wealth said the new owner provides "broader access to investment tools" and the "support of a firm that is focused exclusively on wealth and asset management." The company will be wrapped under the Mariner name. Mariner Wealth, with an average account size of $1.7 million, is part of privately held asset manager **Mariner Holdings**. Founded in 2006 by former A.G. Edwards broker Marty Bicknell, Mariner Holdings has far exceeded its original five-year plan for AUM of $5 billion, aided by a series of acquisitions — the largest in 2009 for energy specialist **Tortoise Capital Advisors**. The company, with around $10 billion in AUM, has set a goal of $50 billion over the next five to seven years.

There were a number of small deals involving buyers targeting local companies to build scale and capabilities. The most prominent firm in that lineup was **Eaton Vance Corp.**, which acquired another Boston company, **Pelican Investment Management** (AUM: $500 million). Eaton Vance praised Pelican for being a "leading provider of family office services" and said those capabilities will "provide an additional dimension to [Eaton's] wealth management services." In the first three quarters of Eaton Vance's 2011 fiscal year, diluted earnings per share rose 36% and AUM increased 15% to $199 billion. In Pennsylvania, **Bryn Mawr Bank Corp.** acquired the **Private Wealth Management Group** of **Hershey Trust Co.**, boosting the bank's AUM by one-third to $4.5 billion and bringing it within sight of its $5 billion goal. In announcing that revenue in its wealth management business had jumped 30% in the second quarter due in part to the addition of Private Wealth, Bryn Mawr said it expects the transaction to be earnings accretive in its first year. The deal marked Bryn Mawr's second acquisition of a wealth manager in three years. Hershey said the holding did not fit with its core mission involving the assets of the Milton Hershey School Trust.

In Colorado, **Cook Financial Associates** acquired **Summit Wealth Group** to create a larger wealth management business with $240 million in AUM, with Summit bringing 80% of the assets. In a letter to clients, Cook said the "collective resources of our two firms will allow us to offer an even broader and deeper range of financial and investment services." Cook, founded in 1989, has gained a niche in the dental industry. In a distress sale in Indiana, **Old National Bancorp** paid $1.3 million for the wealth management business of **Integra Bank**, adding $400 million in assets to the $4 billion it already managed. Subsequently, Old National acquired the assets of 161-year-old Integra Bank from the Federal Deposit Insurance Corp. In Minneapolis, **White Oaks Wealth Advisors** acquired **Intrinzia Family Office**, saying the deal "will add to our capabilities in the multi-family office space."

There were several management buyouts of note. At **Penn Mutual Life Insurance**'s **Pennsylvania Trust Co.** unit (AUM: $1.8 billion), a management team that had been in place for six years bought out the 25-year-old firm. Richardson Merriman, chairman, CEO and founder of Penn Trust, was part of buyout group. Penn Mutual said the wealth unit's geographic presence did not match its own national or regional footprint. Penn Trust proceeded to enhance its presence in the state by acquiring a neighboring firm, **Spartan Capital**, a multi-cap value investor with $180 million in AUM. Spartan's principals created their firm in 2004 to manage their personal assets as well as those of family members. In a letter to clients, Spartan chairman David Robinson said the link with Penn Trust will enhance "our ability to offer clients a suite of additional wealth management services that we are not in a position to provide"

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In the Boston area, partners at **Kobren Insight Management** teamed up with another independent wealth manager, **Adviser Investments**, to buy Kobren from **E*Trade**, which has been divesting the advisory businesses it acquired in recent years. Combined, the two firms — which will assume the Adviser name — have $2 billion in AUM. Adviser Investments was started in 1994 by Dan Wiener, a former financial journalist who established a name producing a newsletter for investors in **Vanguard** mutual funds and then expanded into money management. Kobren brings $700 million in AUM and fixed income capabilities. Wealth management investor **Fiduciary Network** of New York provided financing for the deal in return for a minority stake. In Memphis, **Highland Capital Management** founder and president Steve Wishnia bought out his firm from parent **First Horizon National Corp.** Highland was founded in 1987 and counted among its clients noted Memphis entrepreneur Abe Plough, whose pharmaceutical firm of the same name merged with Schering in 1971. Although Highland has $1.5 billion in AUM, that number is down two-thirds from its peak. First Horizon, which acquired Highland in the mid-1990s, has been rationalizing operations to focus on its core banking business.

In Europe, the consolidation trend among Switzerland's private banks continued, as the industry adapts to the pressures for greater transparency being applied by revenue-hungry governments. Last summer, Switzerland reached agreement with Germany and the U.K. on tax deals involving onetime payments to both nations for undeclared Swiss bank accounts held by their citizens. The amounts are based on a sliding scale levy (19% to 34%) applied to the relevant accounts, effective in 2013. The agreements also apply taxes going forward. From Switzerland's perspective, the agreements were a win, allowing the nation to maintain the secrecy that draws offshore clients to its banks. (The European Commission has asked Germany and the U.K. to renegotiate the agreements to be in compliance with European Union laws on tax evasion.) In addition, a couple of Swiss private banks reached tax evasion settlements with Germany: **Credit Suisse** and Julius Baer, which last year took a 30% stake in a Brazilian wealth manager *(see Cross Border)*.

Union Bancaire Privee's acquisition of **ABN Amro Bank (Switzerland)** was notable given the severe challenges it has faced since the start of the financial crisis. In particular, UBP's reputation took a significant hit following revelations about client assets it fed through its large fund of hedge funds unit to Ponzi scheme operator Bernard Madoff. UBP's AUM has dropped in half since 2008 to $66 billion as of June 2011, with ABN Amro's Swiss office adding $16 billion. As part of a strategy to spark growth, UBP also announced an expansion plan in Asia, where it named a new CEO and created two joint ventures in Hong Kong and Taiwan with Taiwan financial services holding company **Chung Wei Yi Co.**

Dutch parent **ABN Amro** said the sale was driven by a strategic refocus on strengthening its private banking operations in the eurozone, where it ranks among the three largest, and accelerating growth in Asia. "We

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concluded that in the fast-changing and consolidating Swiss private banking market the transfer of our activities to a leading Swiss private bank would be in the best interest of our clients as well staff," said Jeroen Rijpkema, CEO of ABN Private Banking International. Separately, ABN Amro acquired the German private banking unit of LGT Group *(see Cross Border)*. In a second deal inside Switzerland involving an independent buyer adding scale, **Reyl & Cie** acquired **Solitaire Wealth Management** (AUM: $530 million). The transaction boosts Reyl & Cie's total AUM to $4.9 billion and adds a presence in Zurich. The deal also provides Reyl & Cie with a Securities and Exchange Commission license that will allow it to develop services for onshore U.S. customers.

Reyl said the transaction underlines its "determination to build a lasting position in the Swiss-German market" served in Zurich and is in keeping with its "growth through acquisitions" strategy. Reyl & Cie also formed a joint venture in Asia with **Samena Capital**'s Hong Kong-based hedge fund seeding business in what both firms characterized as a union that can create new funds, "become a best-in-class asset manager," and merge the distinct geographic markets each firm serves. Following those two deals, Reyl & Cie told Reuters it remained on the prowl for acquisitions in Switzerland and London, the latter of which it referred to as a "capital of emerging wealth" while calling the U.K.'s offshore market "an attractive space to enter."

But the largest Swiss transaction saw **Safra Group** significantly expand its global network of private banks by paying $1.1 billion in cash for a majority stake in **Bank Sarasin** (AUM: $109 billion). The deal doubles Safra's AUM and adds strength in Asia and the Middle East, as well as Europe. Safra Group, controlled by the Safra family — one of the world's wealthiest families — operates primarily in the Americas and Europe. The bank said it will be "a strongly capitalized majority shareholder" that can support Bank Sarasin's independence and business model and expand distribution for its products. Bank Sarasin will continue to operate independently and under its name. In the first half of 2011, Bank Sarasin recorded a 10% increase in operating income from the year-earlier period, although AUM declined 2%. Safra Group acquired the shares from Dutch bank **Rabobank**, which was seeking capital to underpin its triple-A credit rating and had entertained offers from other firms, including Julius Baer. Rabobank acquired a minority stake in Bank Sarasin in 2002 and exercised an agreement to buy additional shares for $550 million in 2007.

U.K.-based firms were involved in several domestic and cross border deals. In the largest, South Africa's Investec paid $370 million for London's **Evolution Group** *(see Cross Border)*. Within the U.K., the key deal took place between two publicly traded companies, as **Close Brothers Group** enhanced its wealth capabilities and domestic geographic presence with the $42 million purchase of **Cavanagh Group**. For Close, the deal adds $2.4 billion in AUM to a private client business that nearly doubled to $10 billion during its 2011 fiscal year ending July, largely due to the acquisitions of Cavanagh and two smaller advisory companies. Close, which also has banking and securities operations, has been reorganizing its asset management unit around private clients and smaller institutions while divesting its property fund management and offshore businesses. Close, established in 1878, has a total of $15 billion in AUM.

A private equity firm, **Duke Street**, was also active in the market, acquiring a majority stake in **UK Wealth Management** (AUM: $2.3 billion), the parent for several wealth management and employee benefit companies. Duke acquired the shares from UKWM's former CEO and another private equity firm, **J.C. Flowers**. Based in London, Duke has been seeking to capitalize on the heightened regulatory environment in the U.K., and the consolidation it portends, to make a bid for small wealth managers seeking scale. The company, which makes investments in four industries, including financial services, called the deal "an exciting opportunity" to gain scale in a "rapidly changing market." Duke's goal is to build a wealth management business with $16 billion in assets by 2016.

London's **Brewin Dolphin** made an opportunistic leap into Ireland to acquire privately held **Tilman** (AUM: $1.3 billion) in the all-shares transaction. Publicly traded Brewin paid $30 million for the 16-year-old company, but the total could reach as much as $52 million based on Tilman's profits for fiscal 2014 tied to the same 11.5 price-earnings (P/E) ratio defining the upfront payment. Brewin said Ireland's financial crisis had increased the demand for wealth services, "with many clients moving from banks and other institutions which were dominant in our field." Prior to the Tilman deal, Brewin had about $39 billion in AUM.

Cross Border

The promise of the global marketplace was much in evidence in 2011, with deals transacted across all regions and buyers and sellers connecting from throughout the world. Their faltering performance last year notwithstanding, emerging markets were a particular focus for buyers, either via investment in firms based in those markets or in North American and European companies specializing in emerging markets. For asset managers in developed nations, those two sides of the emerging markets coin provide the opportunity to serve increasingly affluent customers and institutions in Asia and Latin America and/or meet growing demand among their own clients for exposure to those markets.

There's plenty of capital in play for emerging markets. In the U.S., the largest 200 pension funds' emerging markets assets jumped 56% to $115 billion in the year ended September 2010 (the latest full-year data available), according to the annual survey by *Pensions & Investments*. The number of funds allocating assets to such markets rose 17%. Meanwhile, Cerulli Associates projects Latin American retirement and mutual funds will invest $270 billion internationally over the next five years while Strategic Insight suggests the region's mutual fund market alone could grow to between $2.8 trillion and $3.6 trillion by the end of the decade from the current $1.4 trillion. Cerulli expects emerging Asian markets will see their AUM double to $4 trillion by 2015. McKinsey estimates that between now and 2020, the financial assets of private investors in emerging economies will jump 15 points to 36% of the global total. "Several forces are converging to reshape global capital markets in the coming decade," the consulting firm wrote. "The rapid accumulation of wealth and financial assets in emerging-market economies is the most important of these."

The lineup of the U.S. asset managers and financial services companies that cut deals last year in emerging markets was impressive, wrapping in **AllianceBernstein, Goldman Sachs** and **Principal Financial Group** *(see Money Management)*. But one of the most significant transactions spanned the Atlantic and involved two prominent emerging markets specialists, **Ashmore Group** of London and Virginia's **Emerging Markets Management**. Ashmore could pay as much as $246 million for the 63% stake it acquired in EMM, which has $10 billion in AUM. The deal merges Ashmore's fixed income focus with EMM's equity orientation to create one of the largest independent emerging markets managers. In the financial year through June 2011, Ashmore's AUM (including EMM assets) rose 86% to $66 billion, primarily due to inflows of nearly $16 billion.

Both firms have a largely institutional but complementary base, with Ashmore enjoying a substantial clientele in Asia, where EMM has a minor presence. The deal involves an upfront payment of $107 million in cash and shares, with the remainder in earnouts over three years. Felicia Morrow, CEO of EMM, called the transaction "a unique opportunity for EMM to become part of a leading, multi-strategy diversified emerging markets asset manager." Following the deal, Ashmore said it is "interested" in buying asset managers based in emerging markets.

Canada's financial services firms, which avoided the excesses of the credit bubble and emerged from the financial crisis with solid balance sheets and a currency on par with the U.S. dollar, continued their global expansion. **BMO Financial Group** entered Hong Kong through the acquisition of **Lloyd George Management** (AUM: $6 billion), an Asian and emerging markets equities specialist for institutions and wealthy individuals. Montreal-based BMO said the deal provides scale for the expansion of its asset management business and "bolsters our portfolio management capabilities in Asian and emerging markets," in line with the demands of its clients. LGM, established in 1991, retained its name. In China, BMO has an interest in **Fullgoal Fund Management** as well as a wholly owned banking subsidiary.

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Diversified conglomerate **Power Corporation of Canada** paid $275 million for a 10% stake in **China Asset Management Co.**, China's largest asset manager (AUM: $35 billion) and one of its oldest (founded in 1998). The stake was purchased from China's **Citic Securities** in a competitive bidding process. Power Corp, which in 2005 was the first Canadian firm granted "Qualified Foreign Institutional Investor" status in China, said it will continue to review potential acquisitions in that market. (Separately, Toronto's **Scotiabank** extended its Chinese footprint by paying $720 million for a near-20% stake in **Bank of Guangzhou**.)

In line with a modest but consistent trend, asset managers in emerging markets secured several deals last year to expand locally or in the developed world. Indeed, in the years ahead, established asset managers could face increasing pressure from more assertive emerging market players, as has been the case in other industries. German consulting group Fund Buyer Focus opined in a report last year that Asia's asset managers could provide stiff competition for European fund managers, holding a particular advantage over their established rivals on pricing.

There were two notable transactions in Latin America involving regional firms, with the largest underlining the opportunities for well-capitalized buyers to pick off far-flung assets from distressed European banks. In that deal, Colombia's largest company, **Grupo de Inversiones Suramericana**, acquired the insurance, pension and asset management businesses of **ING Groep** in five Latin American markets, with Chile and Mexico representing the dominant pension markets. Gruposura's $3.8 billion acquisition was the largest ever by a Colombian company and adds $70 billion in AUM to the $50 billion the diversified conglomerate already managed, along with a total of 10 million customers from the various businesses. Gruposura competed against several major U.S. insurers in the bidding for ING's business.

Gruposa said the acquisition positions it "as a solid and dynamic company with a strategic presence in the region."

Cross Border Transactions

U.S. - International	2007	2008	2009	2010	2011
Number of Deals	19	22	8	17	**21**
Value ($B)	$5.6	$0.9	$1.4	$3.9	**$2.8**
International - International	**2007**	**2008**	**2009**	**2010**	**2011**
Number of Deals	44	38	13	20	**27**
Value ($B)	$6.1	$3.3	$3.2	$2.0	**$2.4**
Total	**2007**	**2008**	**2009**	**2010**	**2011**
Number of Deals	63	60	21	37	**48**
Value ($B)	$11.7	$4.3	$4.6	$5.9	**$5.3**

Source: Berkshire Capital Securities LLC

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Colombia itself is emerging from years of chaos spawned by criminal and guerilla threats — a revival underlined by the nation's return last year to an investment-grade credit rating. In another indicator of the nation's health, Colombia joined Chile and Peru to form an integrated stock exchange last year designed to spur regional investment. For its part, ING has been divesting businesses and raising capital in line with the requirements of its $13 billion bailout by the Dutch government. Last year, ING also sold its **ING Direct USA** online banking business to **Capital One** for $9 billion along with its Australian asset manager (see next page). The company said it is continuing to "prepare our remaining insurance and investment management businesses" in the U.S. and Europe-Asia for separate IPOs "when markets are favorable."

One of Latin America's largest banks, **Itau Unibanco** of Brazil, formed a wealth management joint venture with Chile's **Munita, Cruzat & Clario** (AUM: $2 billion) combining the Chilean assets managed by both firms. For Munita, the alliance adds the vast resources of Sao Paulo-based Itau, including the investment menu offered by **Itau Private Bank International**. Itau said the deal strengthens its presence in Latin America and in particular Chile, which it called "a top priority for growing our business, since it's highly sophisticated and has very good economic prospects for the next few years." Swiss private bank **Julius Baer** tapped the hot Brazilian market by acquiring 30% of **GPS** (AUM: $5 billion), the largest independent wealth manager in that nation. GPS, founded in 1999, said the "global reach and market know-how" of its new partner will add scale and "advisory services leveraged on the combined expertise of both companies."

In a second deal, Julius Baer formed a "strategic partnership" with Australia's **Macquarie Group** involving client referrals for their respective private banking and investment banking services in Asia. Additionally, Macquarie will transfer to Julius Baer its Asian wealth business, consisting of offices in Hong Kong and Singapore (AUM: $1 billion), while Julius Baer will make Macquarie's investment products available to its clients. In 2010, Julius Baer set a five-year goal of doubling its Asian assets to account for about one-quarter of total assets.

There were two cross border deals involving South Korean buyers. **Mirae Asset Financial Group** acquired a small Taiwan asset manager, **TLG Asset Management**, as well as a Canadian ETF provider with a subsidiary in Australia, **BetaPro Management** *(see Money Management)*. **Woori Investment & Securities** bought **Merrill Lynch**'s South Korean private bank in a bid to strengthen that domestic business. Merrill said it would focus on its institutional and corporate business in South Korea. **Cathay Financial Holding Co.** of Taiwan and **Conning** of Connecticut created a Hong Kong-based joint venture institutional firm in a transaction that also involved Cathay's purchase of a minority stake in Conning *(see Money Management)*.

One of the largest deals last year involved **Canadian Imperial Bank of Commerce** paying $848 million for the 41% share in **American Century Investments** held by **JPMorgan Chase** since 1998. Based in Kansas City, American Century (AUM: $110 billion) has in recent years been diversifying away from its reliance on U.S. equities toward fixed income (23% of AUM) and international equities (12%). In 2010, American Century had record inflows of $6 billion, adding $4 billion more during the first half of 2011. Toronto-based CIBC said the deal will allow it to "access and leverage" American Century's capabilities while providing "a strong presence in the U.S. investment management market." CIBC has $70 billion in AUM.

Canadian multi-boutique asset manager **Connor, Clark & Lunn Financial Group** took a 50% interest in **New Star Institutional Managers** (AUM: $1.8 billion), owned by **Henderson Group** of London. Management acquired the other half of equity. NSIM had in the past provided subadvisory services to affiliates of CC&L (AUM: $38 billion). Last year, Henderson made the major acquisition of **Gartmore Group** *(see Money Management)*, following its 2009 purchase of **New Star Asset Management**. CC&L co-CEO Warren Stoddart noted that NSIM's actively managed global and emerging markets strategies "are increasingly important to investors" and said the new relationship with the firm "enhances our ability to meet" those demands among both institutions and individuals.

Two American firms cut deals in Australia, including **Franklin Resources**, which acquired **Balanced Equity Management** (AUM: $11 billion), an established Melbourne-based large-cap manager focused on domestic equities for large Australian superannuation clients and other institutions. Press reports in Australia placed the price around $30 million. BEM founder and managing director Andrew Sisson told the *Sydney Morning Herald* that he sold the firm to clarify succession issues, adding: "What we're good at is managing money and they are very good marketers — that's something we've never done." About one-third of Franklin's $734 billion in AUM is managed for non-U.S. clients, with 11% in Asia-Pacific, including $7 billion in AUM in Australia prior to the deal. In the year through June 2011, however, Franklin's international fund flows actually exceeded those in the U.S. In the second deal, Goldman Sachs paid $1 billion for the 55% it did not own in Australian and New Zealand affiliate **Goldman Sachs & Partners Australia Group Holdings**. In addition to its dominant securities and corporate advisory work, GS&P provides asset management services to institutions and individuals.

Cross Border Transactions by Domicile and Type

2010 — Buyer: / Seller:	U.S. / International	International / U.S.	International / International	Total
Wealth Management	2	0	2	**4**
Money Management	3	2	10	**15**
Other	5	5	8	**18**
Total	**10**	**7**	**20**	**37**
2011 — Buyer: / Seller:	**U.S. / International**	**International / U.S.**	**International / International**	**Total**
Wealth Management	1	2	8	**11**
Money Management	5	4	14	**23**
Other	7	2	5	**14**
Total	**13**	**8**	**27**	**48**

Source: Berkshire Capital Securities LLC

The Americans were joined by **UBS**, which acquired **ING Investment Management** (**Australia**), a deal that made the Swiss bank the No. 9 fund manager in Australia, adding $36 billion to the $14 billion it already managed. ING managed the largest portion of its assets on behalf of the **OnePath** wealth business owned by Australian bank **ANZ.** ANZ said the relationship with UBS offers "a number of strategic benefits for our business and customers," including leveraging the Swiss bank's "strengths in global investment management, research, asset allocation and advisory services." In a second transaction, UBS expanded the structured products capabilities in its investment bank through the $35 million acquisition of **Luxembourg Financial Group**, a specialist asset manager.

National Australia Bank's **nabInvest** asset management unit made a rapid-fire series of five strategic investments last year, including three diverse U.S.-based global asset managers. The first involved a 35% interest in a New York global property fund manager, **AREA Property Partners** (*see Real Estate*), a deal that builds upon nabInvest's 2010 purchase of Canadian-based global real estate investment trust (REIT) manager **Presima**. Two more followed, both involving minority stakes: **Altrinsic Global Advisors**, an 11-year-old global equities fund manager based in Connecticut that manages $12 billion in assets, including for Australian institutions; and Los Angeles-based startup **Peridiem Global Investors**, a fixed income specialist with both traditional and alternative products. Domestically, nabinvest acquired 100% of the Australian asset management business of **Aviva** (AUM: $5.5 billion) and took a minority stake in quantitative firm **Redpoint Investment Management.** NabInvest, whose affiliate portfolio includes 13 boutique asset managers, manages more than $50 billion in assets in-house and through its affiliates.

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Australian fund manager **BT Investment Management** paid $330 million for an established London-based boutique, **J O Hambro Capital Management** (AUM: $11 billion), marking its first overseas deal. J O Hambro, whose assets have grown more than fourfold since 2009, is an active equity manager for institutions and individuals with investments across the range of developed and emerging markets. By contrast, BTIM is largely focused on Australian equities. As part of the deal, BTIM gains a 9.9% interest in J O Hambro's private client business. BTIM said J O Hambro broadens its product line and client base, increases growth and margins, and is expected to be earnings accretive in its first year. Emilio Gonzalez, CEO of BTIM, called the transaction "an exciting opportunity to create a diversified management business with two powerful brands." While acknowledging the uncertainty in markets, Gonzalez told *The Australian*, "I'm buying at a time when the Australian dollar is at a 26-year high and asset valuations are at the lower end." BTIM was spun off in 2007 by majority owner **Westpac Group** as part of an effort to provide management incentives in the highly competitive Australian fund business; it trades on the Australian Stock Exchange.

Europe played host to a number of generally modest cross border deals, with the notable exception of **Investec**'s $370 million all-shares acquisition of London-based wealth manager and investment bank **Evolution Group**. For the South African bank and asset manager, Evolution is the second major U.K. asset management deal in as many years: In 2010, Investec paid $600 million for the 53% of Rensburg Sheppards it did not already own. Investec said the transaction fits with the bank's strategy of "building non-lending revenues" and provides greater scale in private client wealth management and investment banking in the U.K. In its financial year through March 2011, Investec's wealth and asset management businesses made up 39% of earnings, a 13-point jump from the previous year. As was the case with Rensburg Sheppards, Investec indicated it may rebrand Evolution's **William de Broe** wealth management unit under the **Investec Wealth & Investment** name. Just prior to the Investec deal, Evolution had itself paid $40 million for **BNP Paribas**' U.K. private client business, adding $3 billion in AUM to the $9 billion it already managed.

Belgian diversified conglomerate **Ackermans & van Haaren** also tapped the U.K.'s wealth market in acquiring a 73% stake in **JM Finn & Co.**, a London firm with $10 billion in AUM. The $90 million deal was done through Ackermans' fast-growing **Delen Investments** unit, one of the leading independent wealth managers in Belgium. Combined, the two venerable firms will have more than $30 billion in AUM. Luc Bertrand, CEO of Ackermans, called the U.K. onshore wealth market "particularly attractive due to the established equity culture and the increasing penetration of discretionary management, which leads to high quality of revenues and of earnings." Delen accounted for one-quarter of Ackermans' net earnings in the first half of 2011. **Societe Generale** acquired **Baring Asset Management**'s private client business in the U.K. and Guernsey (AUM: $1.5 billion), in line with the French bank's ambition to expand its established private banking business in those markets.

In another cross border U.K.-related private client deal, London's **Brewin Dolphin** bought Ireland's **Tilman** *(see Wealth)*. A second deal in Ireland saw South African financial services firm **Prescient Holdings** acquire the asset management unit of government-controlled **Allied Irish Banks**, calling the transaction a "pivotal step toward building a global business, using Dublin, where we already have a presence, as our European base." **AIB Asset Management Holdings**, which the government had identified as "non-core" and subject to sale, manages $11 billion in global equity, bond and property assets.

ABN Amro acquired the German private bank of **LGT Group**, the wealth and asset management arm of the Princely House of Liechtenstein. ABN said the LGT unit will be merged with its Frankfurt-based private banking subsidiary, **Delbruck Bethmann Maffei**, creating a firm with $28 billion in AUM. In a disastrous 2007 deal that was the largest in banking history, ABN was taken over and split up by a consortium of three major European banks. Two of the buyers — **Fortis** and **Royal Bank of Scotland** — ended up as state wards during the financial crisis, with the Dutch government ultimately taking control of the Fortis and ABN assets in the Netherlands. The government is now embarked on an international expansion drive for ABN, including in private banking, ahead of a planned privatization in 2014.

Boston private equity firm **TA Associates** acquired just under 50% of 11-year-old **DNCA Finance,** a French funds boutique with $8 billion in AUM across a variety of traditional and alternative products, including the $2.5 billion Centifolia fund, one of France's largest equity funds. DNCA cited TA's experience in asset management — the firm has invested in 15 such companies over the past 22 years — in explaining its selection of "a new partner" to "assist with our continued expansion in France and elsewhere in Europe." DNCA's assets have nearly doubled since 2006, when investment bank **Gruppo Banca Leonardo** took an initial 34% stake. TA acquired most of Gruppo's majority stake (Gruppo retained 10%) while management raised its share above 40%. Although pricing was not disclosed, Dow Jones reported that the deal valued the entire firm at more than $500 million.

In a buyout involving a private equity seller, management at London-based **Mondrian Investment Partners** acquired the 27% of shares held by San Francisco's **Hellman & Friedman**, making Mondrian 100% employee-owned. H&F acquired its stake in 2004 as part of Mondrian's management buyout from **Lincoln Financial Group** (Mondrian was then known as Delaware International Advisors). Mondrian is an institutional investor with a value orientation that focuses on global equities and fixed income. The firm has $70 billion in AUM — more than three times the level in 2004, when it paid $200 million for Lincoln's stake. Although value was not disclosed, Bloomberg reported that Mondrian secured a $500 million term loan B to pay for H&F's stake. In a third private equity deal that included an asset management component, Europe's **Cinven** acquired **Aegon**'s U.K. life insurer **Guardian**, which also has a pension business and manages $12 billion in AUM. **Aegon Asset Management** will continue to manage those assets for Cinven.

Real Estate

The real estate market was in a state of flux last year that mirrored the uncertainties in the larger global economy and investment marketplace. For much of the year, commercial mortgage-backed securities enjoyed a recovery, along with other parts of the structured products universe. By the fall, however, investors began to demand a higher premium for the riskiest securities. Similarly, the two-year recovery in the larger U.S. commercial real estate market began to falter toward year-end, with the economy and financing difficulties conspiring against progress. The number of property deals dropped 15% between the second and third quarters to $50 billion, according to Real Capital Analytics (RCA), and prices flattened.

In Europe, commercial property sales were flat in the second quarter following six straight quarters of gains, according to RCA, dragged down by diminishing interest in several of the Continent's troubled markets. In its midyear update, **LaSalle Investment Management** had sounded a warning siren regarding the "relative lack of caution" in real estate capital markets, saying, "It is remarkable how quickly capital has returned to real estate. The re-emergence of a competitive credit market, so quickly after the bursting of the credit bubble, is also astonishing."

Real Estate Transactions

	2007	2008	2009	2010	2011
Number of Transactions	17	5	6	18	**11**
Combined Value ($M)	$2,044	$358	$280	$960	**$2,058**
Total Seller AUM ($B)	$53.6	$20.8	$13.8	$79.8	**$117.4**
Average Deal Size ($M)	$120	$72	$47	$53	**$187**
Average Seller AUM ($B)	$3.2	$4.2	$2.3	$4.4	**$10.7**

Source: Berkshire Capital Securities LLC

In the year through June 2011, real estate investment managers enjoyed a bounce back after a couple of declining years, with AUM up 7.2% worldwide to $726 billion, according to the annual survey by *Pensions & Investments*. At the same time, AUM remains significantly off the peak of $1 trillion registered in 2008. The real estate advisory sector enjoyed an active M&A pace in 2011, including the major divestiture by **ING Groep** of its advisory business. **CB Richard Ellis Group** picked up the largest share of the Dutch firm's business, primarily based in Europe, with **Lightyear Capital** and management acquiring the U.S. business, **Clarion Partners**.

As a result of the $940 million cash deal, CBRE becomes the largest commercial real estate investment manager in the world, with **ING Real Estate Investment Managers** adding $60 billion in assets to the $38 billion CBRE already managed. ING's real estate assets are in Europe and Asia, where CBRE had a limited presence prior to the deal (CBRE's global assets were concentrated in the U.K.). The two firms' client bases are similarly complementary, dividing along the same lines between the U.S. and Europe as assets managed. Calling the acquisition "the most transformative transaction in our industry" since CBRE'S 2006 deal for Trammell Crow, CBRE chief executive Brett White said, "Our expanded investment management business will enhance our service offerings for institutional investors in commercial real estate and provide us with another source of stable revenues."

The real estate advisory sector enjoyed an active M&A pace in 2011, including the major divestiture by ING Groep of its advisory business. CB Richard Ellis Group picked up the largest share of the Dutch firm's business, primarily based in Europe, with Lightyear Capital and management acquiring the U.S. business, Clarion Partners.

The second deal saw management and private equity firm Lightyear Capital team up to pay $100 million for Clarion Partners, which manages $24 billion in assets in a broad range of strategies. The management team includes chairman and CEO Stephen Furnary, who founded Clarion in 1982 and, along with his partners, sold it to ING in 1998. In the near term, the firm plans to limit investments to North America and select markets in Latin America but has left the door open to eventual expansion in Europe and Asia. About half of Clarion's business is made up of separate accounts and 20% of clients are international. In an interview with *Institutional Real Estate Letter North America*, Furnary said management was ready to "take Clarion to the next level. Specifically, we're planning to take our existing capabilities and scale to a new set of investors outside of the traditional institutional space." The two deals track a divestiture course ING has been pursuing since the Dutch government provided a $13 billion bailout during the financial crisis. The company said the sale helped "deliver on our strategic objectives of reducing exposure to real estate, simplifying our company and further strengthening our capital base." ING maintained its real estate advisory holdings in Australia but indicated it would undertake a "phased withdrawal ... in a timely and controlled manner."

There were several additional cross border deals, including **National Australia Bank**'s purchase of a 35% stake in New York-based and privately held **AREA Property Partners** (AUM: $13 billion), done through the bank's acquisitive **nabInvest** asset management arm. NabInvest executive general manager Garry Mulcahy said real estate "continues to attract investor attention and, with limited growth of investment-grade real estate in Australia, increased demand will require offshore investment." NabInvest also cited the solid performance AREA generated during the financial crisis. NabInvest, which made four other asset management deals last year (*see Cross Border*), acquired Canadian REIT manager **Presima** in 2010. AREA, established in 1993 and with investments in a variety of properties worldwide, expects to strengthen its global distribution capabilities and product portfolio as a result of its new partnership.

In another transaction in Australia, **Blackstone Group** paid more than $200 million to acquire publicly traded **Valad Property Group**, in a distressed sale. As part of the deal, Blackstone will reportedly assume some $600 million in debt from the Sydney-based investment manager, which has $8 billion in AUM in Europe and Australia. Valad made some $2 billion in property investments before the financial crisis, leaving it with a significant level of debt that weighed on performance, even as it sought to raise capital through divestitures. Prior to the Valad deal, Blackstone paid $9.4 billion for the U.S. shopping mall holdings of another distressed Australian property firm, **Centro Properties**. In Blackstone's second-quarter conference call, chairman and CEO Stephen Schwarzman noted that the company remained in a strong position to capitalize on the "significant distress" in the real estate sector, saying, "Our competitive positioning has never been stronger as opportunistic capital remains in short supply and most of our large competitors [have] exited or substantially downsized their operations."

Kennedy Wilson capitalized on Ireland's woes in acquiring **Bank of Ireland Real Estate Investment Management**, a manager of commercial real estate on behalf of the bank's clients. The deal represents Kennedy Wilson's first purchase of a European business and adds $2.3 billion in AUM, primarily in Western Europe, to the $7.4 billion the company already managed in the U.S. and Japan. (In the early 1990s, Kennedy Wilson began purchasing Japanese properties from that nation's troubled banks.) The company announced it will set up a new entity, **Kennedy Wilson Europe**, as part of its expansion in the region. In a separate non-advisory deal with **Bank of Ireland**, Kennedy Wilson teamed with institutional investors to acquire $1.8 billion in commercial loans made by the bank, reportedly at a 20% discount to face value. In an interview with Bloomberg, Kennedy Wilson chairman and CEO William McMorrow said Europe has "the biggest opportunities," adding, "The U.S. banks have all raised capital and they're not under as much pressure right now to sell assets."

There were two noteworthy deals in Japan, including the sale by **Goldman Sachs** of its 50% interest in Japanese real estate fund manager **Simplex Investment Advisors**. The buyer, **Aetos Capital**, is a New York-based private equity and hedge fund manager that joined Goldman to take Simplex private in 2007, at a time of rising real estate prices. Goldman is reportedly selling the stake at a fraction of its original cost. Aetos, banking on a property comeback in Japan, renegotiated Simplex's debt and pumped additional capital into the firm. In a second transaction, **MK Capital Management** acquired 90% of real estate fund manager **Atlas Partners Japan**, with about $2 billion in AUM. MK is majority-owned by Japanese private equity firm **Unison Capital**.

Hedge Funds/Private Equity

Following a 2010 year marked by several large deals, including Man Group's $1.6 billion acquisition of GLG Partners, 2011 was characterized by a reasonable level of activity minus the headline transactions that have become common in recent years. The same trends witnessed in other parts of the asset management industry — the presence of private equity buyers and an interest in enhancing or adding credit-related capabilities — were evident in the hedge fund arena. In addition, the hedge fund of funds sector, which has been losing share to directly managed hedge funds, remained a focus for dealmakers.

The hedge fund industry itself endured a challenging year in 2011, as managers grappled with markets fluctuating with each day's headlines. The experience of John Paulson was notable. His prescient call shorting the overheated mortgage market in 2007 made him a hedge fund superstar, a billionaire many times over, and led a crush of investors to his door in the years that followed with as much as $10 billion in new capital. In 2011, Paulson looked all-too-human, in part due to a bullish stance on the U.S. economy. His events-driven Paulson & Co. Advantage Plus fund was reportedly down by nearly half in the first three quarters while the Advantage fund was down by a third. Other Paulson funds also recorded double-digit losses, and **Paulson & Co.** funds suffered a $500 million loss on their holdings in the scandal-plagued Chinese forestry company, Sino Forest.

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Man Group faced its own travails, in part due to weakness in the GLG business, which accounted for half the parent's $6 billion decline in AUM between June and September, to less than $65 billion. Following that announcement prior to its half-year earnings release, Man's stock promptly tanked 25%. For the industry as a whole, the third quarter was particularly bad: Hedge funds delivered their fourth-worst quarterly performance on record, according to Hedge Fund Research, with the HFRI Fund Weighted Composite Index down 6.2% and AUM off $85 billion to $1.97 trillion. Investors in search of potential alpha were not deterred, however: industry net inflows were nearly $9 billion — the ninth consecutive quarter in the black.

In 2011, there were 14 hedge fund transactions valued at $873 million, down from 20 transitions in the previous year. Targeted managers generally had between $1 billion and $2 billion in AUM, with a few exceptions. For the second consecutive year, the largest transaction involved Man Group, which sold its 25% interest in **BlueCrest** back to management for $633 million. Man Group, which said it will book a pre-tax profit of around $250 million on the sale, held the stake for eight years and enjoyed solid annual returns on an original investment of around $180 million. The company said the transaction is "part of our strategic focus on Man's internal investment management capabilities" and noted that the proceeds will enhance its "regulatory capital resources."

BlueCrest was founded in 2000 by two alumni of **J.P. Morgan** who have built the firm into one of Europe's largest hedge funds, with $25 billion in AUM — eight times the level when Man made its original investment. According to its latest filing, BlueCrest generated $1.4 billion in management and performance fees in 2010. In an interview that year with Bloomberg, BlueCrest's colorful co-founder Michael Platt described his firm's philosophy succinctly: "We're traders, not investors." The company is a quantitative manager specializing in currency and fixed income investments; it also follows a disciplined risk strategy that limits traders to 3% losses before it chops individual capital allocations in half and 6% before traders' allocations get cut altogether. In 2010, the company shifted its headquarters from London to Guernsey, in part to insulate itself from the greater hedge fund oversight proposed by regulators.

In a second and similar deal, Man purchased from management the 50% of **Ore Hill Partners** it did not own. Man acquired its original stake in the New York firm in 2008. Ore Hill is a credit-focused, events-driven hedge fund and structured products manager with $1.9 billion in AUM, the largest share of which is in its structured product. The company will be wrapped into GLG, which manages a large portfolio of credit-related hedge funds and long-only products. Man said its expects the deal, primarily concluded in shares, to be earnings accretive in its first full year.

Carlyle Group enhanced its emerging markets portfolio and its hedge fund capabilities with the purchase of 55% of New York's **Emerging Sovereign Group** (AUM: $1.6 billion). For ESG's principals, the deal incorporated an equity stake in Carlyle, along with cash and performance-based contingent payments (a majority of the cash is to be reinvested in ESG funds). Carlyle, which considered more than a dozen emerging markets specialists between 2010 and 2011, said it expects to "leverage" its emerging markets infrastructure "with ESG's public markets franchise to seek to generate superior returns." Carlyle has been engaged with emerging markets since 1998, having pumped $6 billion in capital into more than 100 investments whose value reached $15 billion by the end of 2010. ESG, which pursues an equity and macroeconomic strategy, was established in 2002 with seed capital from storied hedge fund manager Julian Robertson, who retains his investment in the firm.

In a major deal for a private equity fund of funds manager, Carlyle formed a "strategic joint venture" to acquire **AlpInvest Partners** (AUM: $46 billion) of the Netherlands. Carlyle owns 60% of the venture and AlpInvest management the rest. AlpInvest, Europe's largest private equity fund of funds manager, said the link with Carlyle will allow it to "broaden our investor base and product scope." AlpInvest will continue to invest on behalf of former parents and Dutch pension fund giants **APG** and **PGGM**, which granted AlpInvest additional investment mandates totaling $13.5 billion for the four-year period through 2015.

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Carlyle said the joint venture structure will ensure the operational and investment independence of AlpInvest. As part of the effort to allay client concerns about conflict-of-interest, AlpInvest will not invest in new Carlyle funds and Carlyle will not place representatives on the firm's investment committee. For Carlyle, which last September filed to go public this year, the acquisition continues a diversification trend seen among numerous private equity companies that have either become publicly traded or have made plans to do so. In an interview with *Pensions & Investments* last June, Carlyle co-founder and managing director David Rubenstein explained that the deal fit the company's strategy of "having many different funds ... letting the fund managers run their own funds, with central oversight and the approval of deals, but taking advantage of our contacts around the world." Last year, Carlyle cut several deals for a variety of asset managers or asset management products *(see Money Management and Wealth for other Carlyle deals)*.

An all-U.S. transaction featuring a private equity firm saw **TA Associates** acquire a minority stake in **Evanston Capital Management**, a hedge fund of funds manager based in suburban Chicago with $4.2 billion in AUM. (Last year, TA invested in **Stadion Money Management;** *see Money Management.*) Evanston was started in 2002 by David Wagner, former chief investment officer for Northwestern University. Wagner said the deal "sets the stage for a multi-generational ownership structure" while "allowing us to maintain our culture and our investment decision-making processes." The two firms had a prior relationship when Wagner was at Northwestern, a limited partner in TA funds.

A second Chicago-area firm, **William Blair & Co.**, made two small acquisitions in its backyard last year that expanded its traditional portfolio to incorporate hedge fund capabilities. The first deal involved the purchase of "certain assets" of **Guidance Capital**, a fund of funds manager with absolute-return, equity long/short, commodities and managed futures strategies and some $300 million in AUM. Guidance, founded in 2001, said its new owners will "provide us tremendous resources within an ownership culture that is so important to delivering differentiated, consistent performance over time." In the second deal, the target was **Singer Partners**, a 2-year-old global macro strategies firm with more than $200 million in AUM. Singer will continue its subadvisory and product development relationship with Chicago-based turnkey asset management provider **Investment, Inc.** William Blair is a privately held investment bank with $44 billion in AUM, including a diverse family of mutual funds with a large exposure to international markets.

New York's **Asset Management Finance** made two investments in credit-focused hedge funds on both sides of the Atlantic. The first involved New York's **Brigade Capital Management**, which manages nearly $8 billion across four hedged and long-only credit strategies. AMF said the deal is in line with its goal of achieving "a balanced portfolio of minority stakes in traditional and alternative managers." Four-year-old Brigade, founded by the former co-head of fixed income at **MacKay Shields**, Donald Morgan, said the investment will assist in "attracting and retaining key professionals." The other deal saw AMF invest in London's **Lucidus Capital Partners**, a long/short credit manager with $1.8 billion in AUM. The active partners at two-year-old Lucidus, who said the capital will allow them to broaden share ownership, will reinvest the after-tax proceeds of the transaction in the company's funds. Global macro hedge fund **Caxton Associates**, for which Lucidus' founding partners worked, retained its minority interest in Lucidus. Founded in 2003, AMF provides capital to asset managers for a range of strategic purposes in return for a passive, limited-term, revenue-sharing arrangement. In 2008, **Credit Suisse** took a majority stake in AMF, which was founded by the former head of **United Asset Management**, Norton Reamer. AMF has made a total of 21 investments, including in eight alternatives firms.

New York-based Caxton secured a transatlantic deal involving a minority stake in London's **Wadhwani Asset Management**, an 8-year-old macro manager with more than $1 billion in AUM. As part of the agreement, Wadhwani CEO and founder Sushil Wadhwani will become a Caxton partner and manage a "meaningful notional capital allocation" for the company's flagship Global Investments macro fund. Wadhwani, a former member of the Bank of England's Monetary Policy Committee, has had a longtime relationship with Caxton's chief investment officer, Andrew Law. Caxton said Wadhwani's "economic model-based approach to investing fits strategically" with its own "overall macro investment philosophy." Caxton, founded in 1983 by billionaire Bruce Covina, has nearly $11 billion in AUM. Covina planned to retire by end of 2011 and named Law to assume command of the firm.

The New York-London hedge fund axis was also at work in **Nexar Capital Group**'s purchase of **Ermitage Ltd.** (AUM: $1.2 billion), an established London fund of funds manager that creates customized portfolios for institutions and was owned by U.K. investment trust **Caledonia Investments**. Nexar, whose AUM rose to $3.7 billion as a result of the deal, manages commingled funds, including assets acquired in 2010 from **Allianz Group**'s fund of funds unit. Backed by New York private equity firm **Aquiline Capital Partners**, Nexar was started in 2009 by a large team from **Societe Generale**'s alternative asset management unit. The company, with offices in New York and Paris, aims to act as a consolidator in the fund of funds industry. (Nexar was also reported in November to be in talks regarding a merger with **Union Banker Privee**'s fund of funds unit.)

A team of investors acquired a minority share in New York- and London-based **Oak Hills Advisors**, a corporate credit specialist that manages nearly $13 billion in hedge funds as well as long-only funds. The group — including private equity firm **General Atlantic**, Texas billionaire Robert Bass (who co-founded Oak Hills' first investment fund), and Oak Hills management — made an investment and purchased the shares owned by New York's **iStar Financial Inc.,** a publicly traded commercial real estate investment firm. In a deal between two small U.S. firms that manage credit-related hedge funds, **Medley Capital** acquired **Aviation Capital**, which has investments in the U.S. and Europe. Publicly traded Medley Capital, a middle-market credit specialist, has $1.4 billion in AUM.

Hedge Fund Transactions

	2007	2008	2009	2010	2011
Number of Transactions	29	30	10	20	**14**
Combined Value ($M)	$8,399	$1,417	$201	$2,792	**$873**
Total Seller AUM ($B)	$133.0	$46.2	$19.7	$125.0	**$42.9**
Average Deal Size ($M)	$290	$47	$20	$140	**$62**
Average Seller AUM ($B)	$4.6	$1.5	$2.0	$6.3	**$3.1**

Source: Berkshire Capital Securities LLC

New York fund of funds manager **Arden Asset Management** went trawling in Europe's waters to acquire **Robeco Group**'s $1.3 billion fund of funds business, **Robeco-Sage**. Arden, founded in 1993 and with more than $7 billion in AUM, said the businesses were complementary, including the "large overlap" they shared in underlying managers. Robeco-Sage said the transaction "provides significant benefits to our investors through increased resources, including investment talent, leading edge technology, and infrastructure." Robeco Group, part of **Rabobank Group** of the Netherlands, scored a big win last year when it became the sole manager for the $15 billion Dutch transport workers pension fund.

Within Europe, the major transaction took place between two private equity firms, as London's **Richmond Park Capital Holdings** cut a deal with **Sagard Private Equity Partners** of Paris to acquire established fund of funds manager **Olympia Group of Companies**, which manages $2 billion in multi-strategy and thematic fund of funds.

Two-year-old Richmond Park said the deal "marks an important strategic step in the development" of its asset management business and underlines its intention to position Olympia for "the next stage of development" by "enhancing product development and sales and marketing." Olympia has had its share of challenges since the financial crisis, with AUM dropping sharply from a high of $6 billion in 2007. In a 2010 report, Fitch Ratings attributed half the losses to withdrawals and half to performance while noting that the bulk of redemptions came from clients in the banking and structured finance sectors that needed to raise capital, as opposed to "stickier institutional clients."

In the U.S., troubled **FrontPoint Partners** reportedly sold off two of the remaining hedge funds in its diminished portfolio. A onetime high-flyer owned for several years by **Morgan Stanley**, FrontPoint was damaged by insider trading revelations in 2010 that — together with the impact of the financial crisis — have left the firm with a fraction of the $10 billion in assets it once managed. (The trader accused of insider trading pleaded guilty last year.) Private equity player **MatlinPatterson** acquired the FrontPoint Strategic Credit Fund, along with the team that manages it. An investor in distressed assets in a range of industries, MatlinPatterson was spun off from Credit Suisse in 2002. The second transaction involved the spinoff of the credit-oriented Front Point-SJC Direct Lending Fund, with the fund's managers forming a new company, **Czech Holdings**. The $1.1 billion fund, which makes senior secured loans to middle-market companies, reportedly accounted for the majority of FrontPoint's remaining AUM.

There were a number of significant transactions for private equity businesses. In addition to the Carlyle-AlpInvest transaction, these included one transpacific deal involving Tokyo-based conglomerate **Mitsubishi Corp.** buying a 70% stake in California private equity consultant **PCG Asset Management**, with PCGAM parent **Pacific Corporate Group** retaining the rest. The firm, which will be wrapped into a new Mitsubishi subsidiary, **TorreyCove Capital Partners**, manages $21 billion in assets, primarily for pension funds. The two companies have worked together for more than a decade, with PCGAM advising two funds managed by a Mitsubishi subsidiary.

Noting that Japanese firms have been "less successful in establishing [private equity] investments" than Western companies, Mitsubishi said it will capitalize on the deal to strengthen its product lineup and extend the range of private equity investments available in Japan. In a second transaction, Mitsubishi formed Connecticut-based **MC Asset Management Holdings** in collaboration with **Aladdin Capital Holdings** chairman and CEO Aminkhan Aladin, who will own a 20% stake. The transaction provides for Mitsubishi's acquisition of "certain non-core businesses and assets" of ACH, a structured fixed income asset manager that is also based in Connecticut.

Banks remained sellers of private equity operations as they continued to restructure around core businesses and raise capital. **Bank of America** (BoA) spun off to management the **BAML Capital Partners** business it inherited with the 2008 acquisition of **Merrill Lynch**. Subsequently named **North Cove Partners**, the company manages $6 billion in assets on behalf of BoA and other investors, with an investment focus on middle-market businesses. In addition, BoA sold its private equity business in Asia to Hong Kong-based **NewQuest Capital Partners**, a startup formed by a group of private equity firms. The portfolio, which will be managed by the former BoA team, consists of more than 20 non-real-estate investments in five markets, with a concentration in China and India. NewQuest will focus on secondary-market investments, which it considers an untapped market in Asia.

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Citigroup sold a $1.7 billion private equity portfolio to **AXA Private Equity**, which said the deal enhances its position as a leader in the secondary fund of funds market. Citigroup said the deal demonstrates "the progress" it is making in "reducing non-core assets on our balance sheet." AXA Private Equity, which in 2010 acquired private equity assets from BoA and **Natixis**, cut two other deals with European banks last year, buying the $740 million private equity portfolio of **Barclays** and a majority stake in the $840 million portfolio of **HSH Nordbank**. AXA Private Equity has a total of $25 billion in managed assets worldwide, more than three times the level in 2005. French private bank **La Compagnie Financiere Edmond de Rothschild Banque** sold its private equity fund of funds arm to management as part of an effort to meet new capital rules. The buyout group subsequently rebranded the firm **Seligman Private Equity Select** (AUM: $270 million). David Seligman, who founded the business in 2003, held a 25% share prior to the deal. Seligman serves family offices and institutions and invests in small European buyout and growth-equity funds. ❖

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