Berkshire Capital Securities LLC

2014 | INVESTMENT MANAGEMENT INDUSTRY REVIEW

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For those investors fortunate enough to score shares in Twitter's $2.1 billion initial public offering last November, the 73% pop in the stock on opening day capped what was a banner year for equities. With the exception of a few fits and starts, U.S. stock markets kept giving and giving in 2013, with all three major indexes generating strong double-digit returns and adding one more positive year to an improbable string of annual gains since 2009.

Importantly, the pros were finally joined by retail investors who'd been hiding out in money markets and bond funds for four years. In the first three quarters, equity fund net inflows in the U.S. were $114 billion, compared with negative $83 billion during the same period in 2012 and a sea of red ink between 2009 and 2011, according to the Investment Company Institute. In November, Strategic Insight projected that net inflows in 2013 for equity mutual funds and equity exchange traded funds (ETFs) of all types in the U.S. would top $450 billion. Money market funds, with $2.4 trillion in assets in September, remained level with the total at the end of 2012. In 2008, investors had parked $3.8 trillion in money market funds — more than they held in equity funds.

In a reflection of the change in sentiment, the **Vanguard Total Stock Market** index fund became the largest mutual fund last year by overtaking one of the biggest beneficiaries of the post-financial crisis flight to safety, the **Pimco Total Return** bond fund. Vanguard's broad-based U.S. equity index added $77 billion in assets in the first 10 months of 2013 to total $288 billion, while Total Return saw its AUM drop $38 billion to $248 billion. In the November American Association of Individual Investors' Sentiment Survey, 46% of respondents characterized themselves as "bullish" compared with the long-term average of 39%, while only 22% said they were "bearish," or 9 points below the long-term average. High net worth investors joined Main Street in chipping away at their 4-year-old wall of worry. In a comprehensive **U.S. Trust** survey of individuals with more than $3 million in investable assets, 60% said asset growth had become a higher priority than asset preservation — a nearly exact reversal from the survey's findings in 2012.

The stock market gains have in large part been driven by the Federal Reserve's unprecedented monetary policy, which has made equities virtually irresistible. "Forget fundamental analysis," wrote *Financial Times* columnist Henny Sender in October in reviewing the stock market. "It is all about liquidity. The fear of tapering is off the table. If the Fed declined even slightly to back off from its current policies in September, when the stock market reached record highs, it clearly has no intention of doing so any time soon." (In December, the market took in stride the Fed announcement that it would begin the tapering process in January 2014 by trimming $10 billion from its $85 billion in monthly bond purchases.) Still, as the market continued its climb following the summer, there were worrying signs of a gathering bubble.

For all its potential and the investor frenzy around the IPO, Twitter remains unprofitable, for example, much like the dot-com stocks that wowed the investing public during the late 1990s before imploding in 2000. The U.S. IPO market returned to levels last seen in 2000, with companies raising $52 billion through early November, according to Dealogic. Indeed, by the second half, bulls and skeptics were debating various data points to buttress their positions. Margin debt was one, as it climbed throughout the year and reached a record $401 billion on the New York Stock Exchange in September. **Deutsche Bank** warned in July that "Investors have rarely been more levered than today," adding that margin debt was a "red flag" for markets. Employing a range of charts tracking margin debt and markets over decades, the Philosophical Economics blog countered: "We should expect the amount of margin debt that these investors take on to vary with the size of the portfolios they are borrowing against. Thus, we should expect the *total quantity of margin debt* in existence to vary with the *total capitalization of the stock market.*"

Two high-profile Ivy League academics, Robert Shiller and Jeremy Siegel, debated the level of exuberance by citing their differing views on a valuation method known as "Cape." Developed by Shiller, the cyclically adjusted price-earnings ratio applies a p-e ratio based on earnings over a 10-year period, tracking the correlation with

Passive Gains

2013 U.S. MUTUAL FUND FLOWS (EQUITIES)
$ billions

ACTIVE	
Domestic Equity	($12.0)
International Equity	$109.3
Sector Equity	$19.3
PASSIVE	
Domestic Equity	$59.0
International Equity	$37.2
Domestic Equity ETF	$132.4
International Equity ETF	$55.7

Sources: Morningstar, Strategic Insight (ETF data) markets back to 1871. Shiller, noting a 24 Cape ratio in September, expressed his concern about a "rather highly priced" market. But Siegel argued that Shiller's earnings data are flawed, distorted by recent changes in accounting standards that make markets appear richer than they are in reality. Siegel, author of "Stocks for the Long Run," said his reading of the Cape signaled the market had room to run, particularly as low interest rates and inflation suggested an expansion of p-e ratios.

Reversal of Fortune

U.S. MUTUAL FUNDS
$ billions

	2007	2008	OCT. 2013
Equity	6,516	3,704	7,407
Hybrid	719	499	1,198
Bond	1,679	1,567	3,340
Money Market	3,086	3,832	2,669

Source: Investment Company Institute

In Europe, markets were also delivering amid microscopic interest rates and a hoped-for economic recovery that to date has remained phantom-like. In November, the European Central Bank cut rates to a record low 0.25%, as deflation fears surfaced, while third-quarter economic growth in the eurozone flattened out amid European Commission projections for negative growth for the full year. Nevertheless, by early November, the optimists had driven stock markets in two of Europe's biggest basket cases, Greece and Spain, up 27% and 22%, respectively. As in the U.S., Europe's normally conservative retail investors were coming out of their shells. In the 2013 **Natixis Global Asset Management** survey of individual investors, 63% of Continental European respondents agreed that "the level of risk I am willing to take is increasing" — the highest percentage of any region in the world.

Tighter Margins

NORTH AMERICAN ASSET MANAGER PRE-TAX OPERATING MARGINS

	2007	2008	2009	2010	2011	2012
Top-third firms *	47%	49	40	42	46	44
Average	33%	30	22	27	28	28

** As measured by pre-tax operating margins*
Source: McKinsey Asset Management Benchmarking Survey

Through the third quarter, the European fund industry had attracted €55 billion ($75 billion) in net inflows for equity funds and another €89 billion for mixed-asset funds, according to Lipper. Money markets saw net outflows of €69 billion. In the U.S., investors parked a record $5 billion in European equity funds during the third week of October, marking the 17th consecutive week of positive inflows by investors counting on an economic recovery. **Societe Generale** analysts began banging the drum for more in a report that month, advising investors "to switch into eurozone and Japanese equities, where economic policy is much clearer, monetary policy very loose and positioning is low."

In Asia and Latin America, numerous indexes were in negative territory, with investors particularly concerned about the growth prospects in emerging markets, as well as the impact of potential Federal Reserve tapering on both growth and the flow of investment dollars to those markets. But Japan's economic stimulus efforts under Prime Minister Shinzo Abe — a mix of aggressive quantitative easing and public spending combined with some economic reforms — made the nation's stock market one of the global darlings. Through early November, the Nikkei 225 index was up 38%.

For asset managers, the return of animal spirits was good news, with the publicly traded firms delivering strong growth in earnings and AUM. Stocks prices reflected those performances, with the asset managers component of the Dow Jones U.S. Total Market Industry Group rising 44% for the year, compared with 32% for financial firms as a whole. The world's largest asset manager, **BlackRock**, delivered a 14% increase in net income in the third quarter over the year-earlier period while AUM rose 12% to $4 trillion. **Affiliated Managers Group**, a proxy for a range of asset managers given its affiliate structure, saw third-quarter net income climb 37% while AUM rose 22% to top the $500 billion mark. At ETF provider **WisdomTree Investments**, net income jumped 230% to $15 million while AUM increased 87% to $31 billion. In the U.K., **Schroders** reported record profits and AUM for the first nine months.

For dealmakers, 2013 was also eventful, with Europe a particular center of activity, as the post-financial crisis shakeout that is reshaping the region's asset management industry continued to play out. In the largest such transaction, and the largest deal of 2013, **Orix Corp.** of Japan paid €1.9 billion ($2.6 billion) for **Robeco**, the asset management unit of **Rabobank**. Although Rabobank emerged from the crisis with a solid balance sheet, the Dutch firm has nevertheless been restructuring and raising additional capital. In 2011, Rabobank also sold its Swiss private bank, **Bank Sarasin & Cie**, for $1.1 billion. Orix, meanwhile, is representative of Japanese firms flexing their muscles again with overseas acquisitions to compensate for slower domestic growth and negative demographic trends. For Orix, ownership of Robeco extends its footprint into Europe, while the relationship with Rabobank (which retained a 10% stake in Robeco) opens up collaborative opportunities. Orix was joined by **Nippon Life Insurance**, which took a stake in **Principal Financial**'s high-yield boutique, **Post Advisory Group**. As with Orix and Rabobank, the two firms see collaborative potential emerging from the deal.

New York Life also took a major step into Europe with the €380 million ($514 million) acquisition of **Dexia Asset Management**, a unit of Franco-Belgian bailout recipient **Dexia**. The deal brought New York Life's total AUM to $490 billion and made it a force on the global asset management scene. Another high-profile casualty of the financial crisis, **Lloyds Banking Group**, continued to pare operations with several divestitures of asset managers. The largest involved the £550 million ($885 million) sale of **Scottish Widows Investment Partnership** to **Aberdeen Asset Management.** The deal added £136 billion in AUM to the £200 billion Aberdeen already managed, making it Europe's largest publicly traded asset manager. Additionally, Aberdeen paid $180 million for American fixed income firm **Artio Global Investors** and took a majority stake in private equity fund of funds manager **SVG Advisers**.

Credit Suisse was another major firm in restructuring mode, as it sold its **J O Hambro Investment Management** business in the U.K., its European ETF business, and a couple of private equity businesses, while it acquired **Morgan Stanley**'s European, Middle East and Africa wealth unit. The Swiss bank is focused on expansion in the wealth management arena, though it is quitting dozens of marginal markets. (Morgan Stanley also sold its Indian wealth business.) In a billion-euro deal, **Santander** sold 50% of its asset management business to U.S. private equity firms **Warburg Pincus** and **General Atlantic**, as the Spanish banking giant engaged in its own round of capital raising. Canada's **Great-West Lifeco** paid €1.3 billion ($1.7 billion) for government-controlled **Irish Life** in a deal that gave it control of **Irish Life Investment Managers**, Ireland's largest asset manager. Outside Europe, Dutch bailout recipient **ING** divested its South Korean asset manager (as well as its South Korean life insurance business), leaving it with one remaining asset management business in Asia. The buyer, **Macquarie Group** of Australia, took the opportunity to enhance its existing asset management business in that nation, but sold its interest in an Indian wealth joint venture, as well as its Canadian wealth business.

Hedge fund deals were modest, but the industry did draw a number of major buyers, including **Carlyle Group**, **Dyal Capital** (a fund managed by **Neuberger-Berman**), **Franklin Resources, KKR & Co., Man Group,** Principal Financial and **TPG Capital Management**. KKR made its second hedge fund investment in as many years by taking a minority stake in **Nephilia Capital**, a specialist in reinsurance investments related to natural catastrophe and weather risks. Franklin Resources built on its 2012 acquisition of fund of hedge funds manager **K2 Advisors Holdings** by assuming full control of a hedge fund in which it held a minority stake, **Pelagos Capital Management**. Banks and insurers continued to divest their private equity interests, with the largest deal involving a management buyout of **AXA**'s $31 billion private equity business.

Investment Management Transactions

	2009	2010	2011	2012	2013
Majority Equity	115	115	119	127	**129**
Minority Equity	5	15	15	29	**20**
Management Buyout	15	13	10	13	**10**
Total	**135**	**143**	**144**	**169**	**159**
Total Transaction Value ($B)	$31.7	$21.2	$10.3	$12.6	**$14.8**
Total AUM Changing Hands ($B)	$3,300	$1,134	$756	$1,133	**$1,636**

Source: Berkshire Capital Securities LLC

In the U.K., Schroders put its solid balance sheet to work by paying £424 million ($645 million) for wealth manager **Cazenove Capital** in a deal that teams two of the oldest names in British asset management. It was by far the largest wealth deal in a sector characterized by modest transactions. In the U.S., Affiliated Managers Group made its second acquisition through the AMG Wealth Partners unit it set up in 2011, taking a minority stake in **Clarfeld Financial Advisors** of New York. Wealth aggregators **Focus Financial Partners** and **United Capital Partners** cut multiple deals and were joined by an aggressive Florida firm, **Banyan Partners.** Two Canadian firms opened their wallets to expand in the U.S.: **Fiera Capital Corp.** paid $156 million for two wealth managers while **Canadian Imperial Bank of Commerce** ponied up $210 million for **Atlantic Trust Private Wealth Management**.

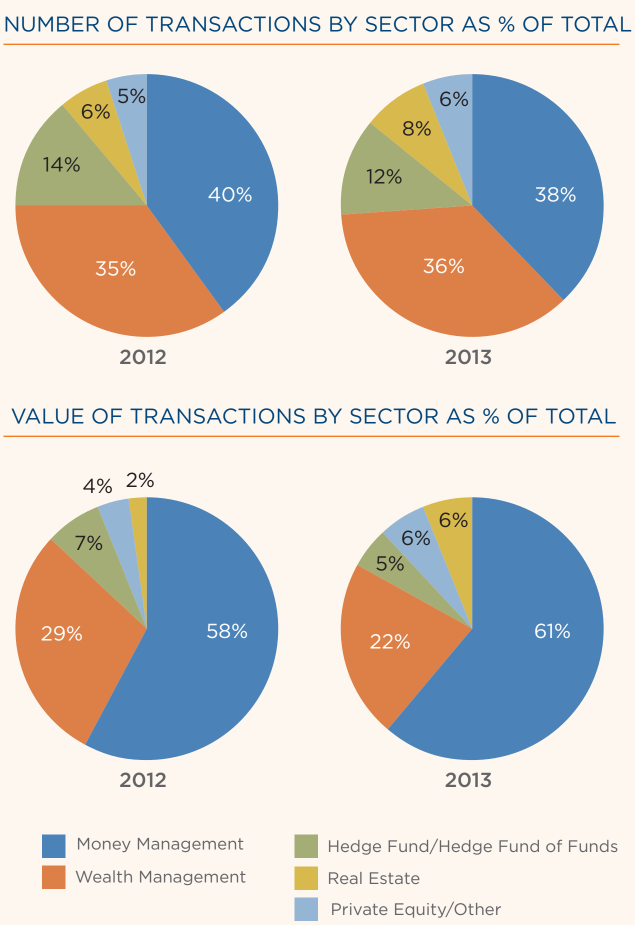
The real estate advisory sector drew several marquee buyers, including **Ares Management**, BlackRock, **BTG Pactual**, Carlyle and **TIAA-CREF**. BTG, the ambitious Brazilian investment bank and asset manager, acquired **Regions Timberland Group**, a deal that made it the largest timberland manager in Latin America. BlackRock doubled the size of its real estate investment platform by acquiring **MGPA**, a global private equity real estate advisory firm with $12 billion in AUM.

* * *

Five years after the financial crisis, investors in the U.S. finally breathed a mass sigh of relief and embarked on a remarkably robust equity buying spree, in the process propelling the S&P 500 and Dow Jones Industrial Average to record highs, while driving Nasdaq a significant step in the direction of the all-time high reached before the dot-com crash. In Europe, investors went out on a limb with wagers on nations such as Greece and Spain still in the throes of 1930s-style economic calamities.

As the holiday spirit enveloped investors in the U.S., more than a few may have tweeted their thanks to Ben Bernanke at year-end as he prepared to leave his Fed post in January 2014. Doubtless, many were tweeting away to the new dovish Fed chief Janet Yellen encouraging her to keep the faith with Ben. In Europe, central bank head Mario Draghi is pursuing his own aggressive stimulative efforts to fire up economic activity and stave off deflationary pressures, as is Bank of Japan Governor Haruhiko Kuroda.

Who's Selling



Source: Berkshire Capital Securities LLC

While these efforts have had an uncertain impact on the various economies at ground level, there's no doubt they have helped juice returns in stock markets. But the distortions created by central banks' unprecedented monetary policy were playing out in the range of investments last year. Triple-C bonds, which are defined by Standard & Poor's as having a 50% chance or higher of default, had pulled in a record $38 billion worldwide by early November, according to Dealogic. In fact, demand among yield-starved investors was so high, Triple-C yields dropped by 2 percentage points from 2012 while spreads narrowed with more credit-worthy Double-B bonds. In Europe, bond issuance by companies that don't even merit a credit rating has also been rising, while Greek companies were able to raise a record €4 billion ($5.4 billion) by November. European high-yield issuance as a whole reached a record €79 billion ($106 billion) in November, according to Credit Suisse.

In the U.S., investment grade U.S. bonds topped the $1 trillion mark for the second consecutive year, led by Verizon Communications' record $49 billion bond sale. The U.S. rental securities market was newly hatched from the tens of thousands of distressed properties acquired by investors in recent years, most notably private equity firms. In November, Blackstone, which has spent billions buying homes, sold the first such security, a $479 million bond built on 3,200 single-family rentals. The Triple-A portion of the bond delivered a rate 115 basis points above Libor.

For the asset management industry, and in particular equity managers, the news in 2013 has been nearly all good, though more than a few investment pros were glancing over their shoulders at the ghosts of 2000 and 2008 as the year closed. Cerulli Associates projected the industry worldwide would hold $70 trillion in AUM by the end of 2013 — $20 trillion more than in 2008. Institutions should help drive that number to $90 trillion by 2017, the researcher opines. In line with long-term trends, a disproportionate share of those gains has been enjoyed by a small group of global players.

In its latest survey of the asset management industry, covering the year 2012, McKinsey notes that the world's 20 largest firms controlled a stunning 49% of AUM, up 14 points over a decade. The American firms that naturally dominate the domestic market are faring very well overseas, too, having grabbed 50% of the net flow into European-domiciled funds between 2008 and 2012. Moreover, growth in 2012 was confined to a "select group of firms whose conviction to invest behind major growth trends have [sic] enabled them to gain share." Over the next five years, the "winning players" will be those "that focus on finding the spots where organic growth will concentrate," the consulting firm suggests, and "willing to act with the level of conviction necessary to address the complex needs of sophisticated investors." Within that context, the effort by large asset managers that fall outside the top-20 to capitalize on the travails of European competitors via major acquisitions is understandable. Last year, that included such firms as New York Life and Aberdeen

Asset Management, ranked No. 49 and No. 60, respectively, in latest the Towers Watson rankings of the largest global asset managers.

McKinsey does highlight several challenges the industry faces, including costs that have been rising faster than revenues and AUM, profit levels that as of 2012 were 20% below pre-crisis levels, and broad differentials among firms in profitability, not to mention regulatory stirrings on both sides of the Atlantic. In Washington, D.C., an arm of the Treasury Department released a report last year warning about threats to the financial system posed by the asset management industry. If accepted — and the industry is lobbying aggressively to counter the report — it could place the largest asset managers in the same "systematically important" bucket as the nation's largest banks and thereby set the stage for tougher regulation.

Who's Buying

	2009	2010	2011	2012	2013
Money Manager	34	37	34	36	**36**
Financial	16	22	26	24	**32**
Bank	14	11	15	26	**24**
Wealth Manager	23	19	28	23	**13**
MBO	15	13	10	13	**10**
Insurance Company	2	5	2	13	**9**
Securities Firm	11	17	9	9	**9**
Trust Company	8	5	3	2	**6**
Real Estate Manager	5	6	4	5	**4**
Other	7	8	13	18	**16**
Total	**135**	**143**	**144**	**169**	**159**

Source: Berkshire Capital Securities LLC

The McKinsey numbers and related challenges notwithstanding, the industry continues to provide plenty of opportunity. If profitability overall is down, return on equity remains higher than in other areas of financial services, such as banking and insurance. And while size confers significant advantages, nimble and focused boutiques remain profitable and continue to attract assets and add value for clients. Many are also engaged in their own version of bulking up, whether through acquisitions or by creating links to the dominant players. After all, $70 trillion in AUM on the way to $90 trillion (if we accept Cerulli's educated guess) is a lot of money. Even if the big boys account for half the pot, that still leaves an awful lot of money on the table for everyone else.

MONEY MANAGEMENT

In 1983, Wally Weitz launched his investment firm with $11 million in assets, employing the same value-driven philosophy as fellow Omaha resident Warren Buffet. Quickly, Weitz showed he wasn't too shabby an investor either. Between 1990 and 2000, his flagship **Weitz Value Fund** — which included Buffet's own Berkshire Hathaway company as a core holding — delivered average annual returns of 21%.

That performance won Weitz numerous plaudits, including a place on the *Forbes* Honor Roll of fund managers and the moniker of "Omaha's new value king" from Louis Ruckeyser, host of the popular "Wall Street Week" TV show. Those returns also ensured steady inflows into the Value Fund and the larger **Weitz Funds** family. By 2005, the Value Fund had $4 billion in assets while continuing to outpace the Standard & Poor's 500 with positive returns during down years.

Weitz Value's streak came to an abrupt end in 2007-2008, when it lost half its value, but in the three years through August 2013 the fund regained its stride, outpacing the S&P 500 by a percentage point with a 19.4% average annual return. Yet, as *The Wall Street Journal* chronicled last June, Weitz has joined legions of other, and lesser, active fund managers in scrambling to find new investors. Today, his Value Fund has just $1 billion in AUM, and the fact that it had inflows of a mere $1 million at the time of the *Journal* article last June was considered notable enough to include in the story. "We're a good house in a neighborhood [investors] don't want to be in," Weitz told the *Journal*.

Part of the reason investors aren't buying the house is that it charges a 1.2% fee. In the Plain Jane neighborhoods populated by index and exchange traded funds, the rent is a lot cheaper. The **iShares Core S&P 500** ETF has a fee of 7 basis points, for example, while the **Vanguard S&P 500** fund charges a fee of 17 basis points. The other related reason is that investors, shaken by the inability of active managers to divine the 2008 crash or beat indexes on a consistent basis, don't see why they should pay higher fees. McKinsey summed up the current environment in a recent report on the asset management industry: "Industry flows are increasingly moving away from traditional relative return funds and toward three growth areas: passive products, solutions and alternatives. More than $1.3 trillion flowed into these categories from 2008 to mid-2012 — a stark contrast to the $670 billion in outflows from relative return equity funds over that same time frame."

In 2013, a year marked by the retail investor's return to equities, the active vs. passive trend was uneven. In the U.S., broad-based actively managed U.S. equity funds continued to experience net outflows, of $15.1 billion in the first 10 months, compared with net inflows of $48.3 billion for U.S. equity index funds, according to Morningstar. U.S. equity ETFs had net inflows of $87 billion during the same period, according to Strategic Insight. But Morningstar data show that actively managed U.S.-based international equity funds had strong net inflows of $87.5 billion — three times the amount of passive international equity funds — suggesting that investors are more willing to pay for expertise in unfamiliar territory.

The rise of indexing is also reflected in the declining fees on all equity funds (excluding ETFs): In 2012, the latest year for which figures are available, fees averaged 77 basis points, down 30 basis points over the last 20 years, according to the Investment Company Institute. For actively managed funds, fees average 92 basis points, down 10 basis points from 1998, while index fund fees have dropped by nearly half to 13 basis points.

Money Management Transactions

	2009	2010	2011	2012	2013
Number of Transactions	66	54	58	67	**61**
Combined Value ($B)	$25.2	$5.1	$5.8	$7.3	**$9.0**
Total Seller AUM ($B)	$3,017	$357	$450	$762	**$1,061**
Average Deal Size ($M)	$382	$95	$100	$109	**$148**
Average Seller AUM ($B)	$45.7	$6.6	$7.8	$11.4	**$17.4**

Source: Berkshire Capital Securities LLC

As asset managers recalibrate their strategies for a changing U.S. market, the action last year for deal-makers was centered in Europe's restructuring industry, including the €1.9 billion ($2.6 billion) acquisition by Japan's **Orix Corp.** of **Robeco**, the asset management arm of **Rabobank** of the Netherlands. A second megadeal saw private equity firms **Warburg Pincus** and **General Atlantic** pay around €1 billion ($1.3 billion) for half of **Santander**'s asset management business. **New York Life Insurance** established a firm footprint in Europe by acquiring **Dexia** for €380 million ($514 million), while in the U.K., **Aberdeen Asset Management** paid £550 million ($875 million) for **Scottish Widows Investment Partnership** *(see Cross Border for more on all three cross border deals)*. **BlackRock**, the leading beneficiary of the passive investing trend, added a tack-on ETF acquisition in Europe by acquiring **Credit Suisse**'s ETF business *(see Cross Border)*.

In the U.S., there were just a handful of major players in the marketplace as buyers, including **Affiliated Managers Group, AllianceBernstein** and **Nationwide Mutual Insurance Co.** They were joined by private equity firms **Crestview Partners** and **Rosemont Investment Partners**. Serial acquirer **Mariner Holdings** continued its run of purchases via its **Montage Investments** asset management unit. In total, there were 61 deals last year for money managers valued at $9 billion.

Mutual life insurers have been notable buyers of money managers since 2012, including New York Life and **MassMutual**. Last year, Nationwide Mutual stepped into the market to cut a deal for 17 equity and fixed income funds from **Highmark Capital Management**. The Ohio-based insurer, which has some $45 billion in AUM in 91 funds through its **Nationwide Funds** unit, added $3.6 billion more with the acquisition. In an interview with MutualFundWire.com, Nationwide Funds president Michael Spangler said advisors are demanding funds in areas Highmark covers, such as international equities and small- and mid-cap growth. "We also think that we can leverage our distribution abilities across Nationwide to promote these funds," he said. Highmark will continue to subadvise nine of the funds, with the additional eight in the hands of three other subadvisors. In 2012, mutual funds accounted for 3% of the $18.2 billion in sales generated by Nationwide's financial services division.

In a second transaction, Highmark sold five money market funds with $4 billion in assets to **Reich & Tang Asset Management**, a New York firm that provides liquidity and cash management solutions to financial services firms. Reich & Tang, part of **Natixis Global Asset Management**, reached the $32 billion mark in assets under supervision last July (after the deal), representing 22% growth during the first seven months of 2013. In a statement on its website, Highmark, owned by San Francisco's **Union Bank** (which is in turn part of **Bank of Tokyo-Mitsubishi UFJ**), said it made the divestitures because it had not "achieved the scale necessary to compete effectively" in the mutual fund industry. Separately, Highmark said the deals will allow it to focus on growing its "core business" of serving institutional and high net worth investors, for whom it oversees $15 billion in assets.

In a move closely watched by the insurance sector and credit investment management firms, **Allied World Assurance Company Holdings** initiated a strategic partnership with **Crescent Capital Group**, buying a minority stake in the privately held credit and high-yield specialist. It marked the fourth investment Allied has made since the last quarter of 2012 under its new **Allied World Financial Services** subsidiary. AWFS was created to facilitate strategic partnerships with leading investment firms that complement the parent's insurance and reinsurance businesses and diversify its investment portfolio. Los Angeles-based Crescent manages $13 billion in assets split between marketable securities and proprietary closed-end private investment partnerships and is best known for its high-performing mezzanine funds. As part of the deal, Allied will commit $500 million in capital to new and smaller products managed by Crescent across a range of credit strategies. In 2012, AWFS acquired minority stakes in credit strategist **MatlinPatterson Asset Management** and collateralized reinsurance asset manager **Aeolus Capital Management**, among others.

In a U.K. deal involving another large insurer, the **Royal London Mutual Insurance Society** acquired the **Co-operative Banking Group**'s asset management business, adding £20 billion ($33 billion) in assets to the £52 billion it already managed. The deal included Co-Operative's life insurance business. Royal London, the largest mutual life and pensions company in the U.K., said the transaction enhances its scale in the domestic pensions market and supports its mutual dividend policy.

Scotland's Aberdeen Asset Management paid $180 million for New York's **Artio Global Investors**, with the per share price of $2.75 representing a 34% premium over the target's closing price prior to the offer. Artio, which traded on the New York Stock Exchange, manages $10.6 billion in assets for retail and institutional investors, almost entirely in fixed income. Aberdeen CEO Martin Gilbert said the transaction dovetails with the firm's "strategy of undertaking infill acquisitions that will assist with growing our business organically." In addition, Gilbert said the deal will strengthen Aberdeen's U.S. fixed income expertise and expand its distribution network in a "key growth market." Aberdeen has built a small U.S. presence via acquisitions, in particular its 2005 purchase of **Deutsche Bank**'s global fixed income business based partly in Philadelphia. Aberdeen, listed on the London Stock Exchange, has been criticized by some analysts for being overly reliant on emerging market strategies, which together with Asia-Pacific account for two-thirds of equity AUM. Equity assets in turn make up more than half of Aberdeen's AUM.

The purchase price is a big comedown from Artio's $650 million initial public offering in 2009 at $26 per share. But it also reflects the significant outflows Artio has endured since then, primarily in its international equity funds (Aberdeen transferred those remaining assets to its own global equity investment team). The fixed income funds that drove Aberdeen's interest have also experienced outflows, but at much lower levels. At the time of the IPO, which involved splitting off from parent **Julius Baer Group**, Artio had $56 billion in AUM. One analyst warned then that Artio's dependence on international equity funds left it vulnerable to a turn in investor sentiment. In addition to Scottish Widows Investment Partnership, Aberdeen acquired private equity fund of funds manager **SVG Advisors** *(see Hedge Funds/Private Equity)*.

Another transatlantic deal of note saw French asset manager **Amundi** acquire **Smith Breeden Associates** of North Carolina, an established fixed income specialist for institutions with $6.4 billion in AUM. Amundi, a joint venture between **Societe Generale** and **Credit Agricole**, said the deal provides "expertise in U.S. dollar products" for its institutional and corporate clients and is a "significant contribution toward Amundi's goal of creating a global fixed income platform with established regional expertise." Smith Breeden chairman and CEO Mike Giarla told *The* [Raleigh] *News & Observer* that the connection with Amundi will provide it with more capabilities to meet the needs of its institutional clients. "We figure many of those clients do want and will want more global products that we'll be working on over time with Amundi," he said. The firm will be renamed **Amundi Smith Breeden**.

In its second tack-on acquisition in three years, AllianceBernstein acquired **W.P. Stewart**, a publicly traded U.S. equity specialist that manages $2 billion for institutions and high net worth individuals. AllianceBernstein chairman and CEO Peter Kraus said W.P. Stewart's "concentrated growth equity services" and "alpha generation potential" complement his firm's existing equity platform. On its website, W.P. Stewart says its funds have outperformed the "broader market" during 27 of 28 10-year periods. The firm's flagship product, the **U.S. Equity** managed account, is made up of 15 to 20 companies that represent the "highest conviction ideas of our portfolio managers."

In a move closely watched by the insurance sector and credit investment management firms, Allied World Assurance Company Holdings initiated a strategic partnership with Crescent Capital Group, buying a minority stake in the privately held credit and high-yield specialist.

AllianceBernstein, traditionally an equity shop, has been shifting its emphasis to bonds since Kraus came on board in 2008 to recharge the company. In 2007, AllianceBernstein had $837 billion in AUM, 73% in equities. By 2011, assets had dropped by more than half before beginning a slow climb in 2012 and reaching $440 billion last summer, with 58% in fixed income. W.P. Stewart, founded in 1975, was an OTC-traded stock, having been delisted from the New York Stock Exchange in early 2009 based on market capitalization. AllianceBernstein offered $60 million in cash (3% of AUM), or a premium of about 70% to W.P. Stewart's share price prior to the deal. AllianceBernstein could pay another $20 million if W.P. Stewart's AUM increases to $5 billion within three years of the closing. In 2011, AllianceBernstein expanded its Asian footprint with the acquisition of a small Taiwan fund manager.

Affiliated Managers Group acquired a majority interest in **SouthernSun Asset Management** (AUM: $5 billion), a small- and mid-cap specialist based in Memphis. The company's flagship fund is **SouthernSun Small Cap** (AUM: $775 million), a concentrated vehicle with 20 to 40 stocks. In referring to the firm's "bottom up" approach during an interview with Lipper last May, SouthernSun founder, CEO and chief investment officer Michael Cook said, "We focus on fundamentals. A lot of our work is done in plant and facility with feet on the ground around

There were several deals of note involving private equity buyers. The largest saw Crestview Partners pay $246 million to acquire Victory Capital Management from KeyCorp, the Cleveland-based bank.

the world. Even though we are [invested in] U.S.-based companies only, they generally have facilities all around the world." AMG also sold its long-held majority interest in **Friess Associates** back to management. Friess is manager of the **Brandywine** family of funds as well as individual portfolios for retail and institutional investors. As part of the deal, the three Brandywine funds (AUM: $1.2 billion) will be reorganized under AMG's **Managers Funds** portfolio while retaining their branding, with Friess acting as subadvisor. AMG, which also divested a majority share in institutional manager **Essex Investment Management Co.** in 2012, acquired its initial interest in Friess in 2001. Both Friess and Essex (AUM: $580 million) have experienced sharp declines in AUM in recent years. Separately, AMG made a minority investment in wealth management firm **Clarfeld Financial Advisors** *(see Wealth Management)*.

There were several deals of note involving private equity buyers. The largest saw Crestview Partners pay $246 million to acquire **Victory Capital Management** from **KeyCorp**, the Cleveland-based bank. Victory Capital, with $22 billion in assets under management and advisement, manages money for institutions and individuals across a range of investment styles and serves as investment advisor to the **Victory Funds** portfolio of 19 mutual funds. KeyCorp's broker-dealer, **Victory Capital Advisers**, was also part of the deal. Crestview was joined in the purchase by Victory Capital management and employees, who will own a "significant amount of the outstanding equity."

KeyCorp said the transaction was in line with a focus on "our core relationship banking model" and noted it would use between $75 million and $90 million of the after-tax cash proceeds toward its share buyback program. (In March 2013, the bank announced a share repurchase program of up to $426 million.) Crestview, founded in 2004, already held investments in three other asset managers, including U.S.-focused equity manager **Munder Capital**. New York-based Crestview, with $4 billion in AUM, is a middle-market investor with a value and "contrarian" orientation. Crestview cited Victory's "outstanding portfolio managers" and "history of strong investment performance" in explaining the decision to invest.

In a second private equity deal, Rosemont Investment Partners took a minority stake in **Litman Gregory Asset Management** designed to "facilitate a recapitalization and generational transfer" of managers. The transaction ensures Litman (AUM: $9.4 billion) can remain independent, with the company scheduled to repurchase Rosemont's shares in five years. Founded in California in 1987, Litman manages global portfolios for institutions and high net worth individuals and runs three other businesses, including the **Litman Gregory Masters Funds**, a family of multi-manager equity and alternatives funds. Rosemont, an asset manager investor based in Pennsylvania, provides capital for fund management buyouts, recapitalizations and selected startups. In 2012, Rosemont supported the management buyout of $2 billion in growth and value equity assets run by **Fifth Third Bancorp**'s Minneapolis and Cleveland offices.

Three private equity firms led by **FTV Capital** made a $75 million investment in **Good Harbor Financial**, a provider of ETF managed portfolios (AUM: $5 billion). FTV, joined by **LLR Partners** and **CJM Ventures**, said the investment will enhance Good Harbor's "product, client service and distribution capabilities" and also provide capital for potential acquisitions. Good Harbor, founded in 2003 and based in Chicago, is one of the larger players in the fast-growing ETF managed portfolio market, which Morningstar estimates at $75 billion in assets. The firm manages three tactical funds employing ETFs in part or whole, including **Tactical Core**, a U.S. long-only balanced fund that shifts its asset allocation based on prevailing or anticipated market conditions. FTV has been an investor in several ETF providers, including **ETF Securities**, a commodities specialist with $23 billion in AUM.

In a cross border deal, **KKR & Co.** acquired European credit investment manager **Avoca Capital** in what was an otherwise relatively quiet year for deals in the consolidating credit sector. Founded in 2002 and based in Dublin and London, Avoca has $8 billion in AUM, including in loans and bonds, long/short credit, and structured and illiquid credit. KKR said the deal will "expand our credit platform to offer a full spectrum of credit opportunities globally for our clients." In building its European credit business over the last two years, KKR has provided $2 billion in capital for private credit and special situations. Overall, the New York firm has $28 billion in credit assets in its global multi-strategy platform. Private equity firms are helping to fill the post-financial crisis credit gap in Europe as banks rein in their lending to manage risk and comply with tighter capital requirements.

Estancia Capital Partners, a private equity firm based in Arizona, acquired a minority interest in **Sustainable Growth Advisers** of Connecticut. SGA is a specialist in managing U.S. and global growth equity mandates for institutions. The company, whose AUM has tripled to $5.3 billion since 2011, is the longtime subadvisor for the **John Hancock U.S. Global Leaders Growth Fund**, with $626 million in assets. Estancia, founded in 2009, targets investments between $10 million and $25 million in "institutional-quality" asset and wealth managers, as well as related business services firms. Estancia closed its first fund in December 2011 with commitments of $100 million from investors such as Credit Suisse, **Nuveen Investments** and several family offices, with a goal of investing in six to eight firms. In addition to SGA, the firm has acquired interests in Connecticut wealth manager **Spruce Private Investors** and Bermuda hedge fund administrator **Equinoxe Alternative Investment Services**.

Hedge fund **Arrowpoint Partners** entered the retail fund business with the purchase of **Aster Investment Management** (AUM: $2.9 billion). Based in California and founded in 1977, Aster manages the small- and mid-cap **Meridian Growth Fund** (accounting for two-thirds of assets), as well as two other funds. Prior to the deal, Denver-based Arrowpoint (AUM: $2.2 billion) had hired two of **Janus Capital Group**'s top-performing small- and mid-cap managers, who will manage the Meridian Growth Fund. Arrowpoint's three principals are also former Janus executives and portfolio managers, including former **Janus Fund** manager David Corkins, who started up Arrowpoint in 2007. Aster founder Richard Aster, Jr., died in 2012.

In the Midwest, **Tamco Holdings** completed a tender offer for the rest of the shares it did not already own in Milwaukee-based **Titanium Asset Management**. Titanium is a multi-product asset management company that owns four asset managers with total AUM of $8.9 billion. Tamco, the vehicle used by executives and senior employees of Titanium to effect the acquisition, had in 2012 acquired 51% of Titanium for $18.5 million. Titanium is the parent of **Boyd Watterson Asset Management**, **National Investment Services**, **Titanium Real Estate Advisors**, and **Wood Asset Management**. The bulk of Titanium's assets are in fixed income and managed for institutions, with equity and real estate strategies accounting for 11%. Titanium raised $120 million in a 2007 initial public offering on London's small-cap AIM exchange. Created as a special purpose acquisition company (SPAC), Titanium's goal was to acquire specialist asset managers with complementary businesses that it could "manage as an integrated business." Boyd Watterson, a fixed income shop based in Cleveland and one of the oldest asset managers in that city, is the largest of the subsidiaries with $4.9 billion in AUM.

A Kansas City-area deal saw **Palmer Square Capital Management** take a majority interest in **Fountain Capital Management**, a high-yield bond and bank loan portfolio investor with $1.1 billion in AUM. Fountain had already served as subadvisor for Palmer products. Fountain, founded in 1990, concentrates on the higher-quality end of the high-yield market. Palmer Square president Christopher Long told the *Kansas City Business Journal* that Fountain is "really a natural extension of our credit expertise. Fountain has been doing high-yield bonds and leverage loans all the way back to 1990." Palmer parent Montage Investments, the asset management arm of acquisitive Mariner Holdings, incorporates more than a dozen boutique firms, the largest of which is **Tortoise Capital Advisors**, a manager of energy master limited partnerships. Montage's AUM doubled to $18 billion between 2011 and August of last year.

In a Canadian deal between two independent firms with complementary specialties, **Toron Investment Management** acquired the larger **AMI Partners**. The combined firm, renamed **Toron AMI International Asset Management**, will be based in Toronto and have C$3.5 billion ($3.3 billion) in AUM, with AMI delivering more than 80% of the assets. AMI, founded more than 50 years ago and part-owned by **Toronto-Dominion Bank** prior to the deal, is an institutional firm focused on domestic equity, fixed income and balanced investments. Toron, founded in 1988 as a risk management consultant, has a global investment focus and serves both institutions and private clients. Canadian financial services firm and wealth manager **Cidel Financial Group**, majority owner of Toron, will remain the majority owner of the combined firm.

By virtue of its £550 million ($885 million) acquisition of Scottish Widows Investment Partnership, Aberdeen Asset Management became the largest publicly traded asset manager in Europe, with £336 billion ($540 billion) in AUM. Aberdeen could also pay up to £100 million in a performance-related earn-out over five years. As part of the deal, SWIP parent **Lloyds Banking Group** retained a near-10% share and the two firms cemented a "long-term strategic relationship." For Aberdeen, that includes capitalizing on the insurer's distribution channels and managing its insurance funds. Of the £136 billion in AUM Aberdeen acquired, nearly three-quarters involves Lloyds' insurance business. The assets are also more heavily weighted toward fixed income (32%) than at Aberdeen (18%). Aberdeen, with equity assets focused on emerging markets and Asia-Pacific, also gains more exposure to the U.K. retail market through SWIP.

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In an interview with the *Financial Times*, Aberdeen chief executive Martin Gilbert pointed to the imperatives of size, "particularly in the U.S.," saying, "This acquisition puts us in the big leagues in terms of assets under management, and that will help us win business in the U.S. as size, name and performance are what matter most." Lloyds, which is gradually emerging from under the shadow of the government bailout it received in 2008-2009, sees the tie-up as potentially assisting the growth of its U.K. wealth business. The company divested several asset managers last year as part of its larger restructuring *(see Cross Border)*. A second U.K. deal of note saw life insurer and asset manager **Legal & General** spend £131 million ($200 million) to acquire the 75% of **Cofunds Holdings** it did not already own. Cofunds is the U.K.'s largest investment platform serving financial services firms, overseeing £50 billion in assets under administration and offering advisers a menu of some 2,100 funds.

In Switzerland, private bank **EFG International** sold its remaining 20% stake in structured products service provider **EFG Financial Products** to **Notenstein Private Bank** for CHF 70 million ($75 million). Subsequently, EFG Financial Products was renamed **Leonteq**. EFG International, which has been divesting non-core operations to focus on wealth management, had sold a third of the shares in EFG Financial in 2012 through an initial public offering. Notenstein (AUM: CHF 21 billion) said it will become Leonteq's white-labeling partner, issuing structured products under the Notenstein name for the domestic market that are in turn guaranteed by its Aa2-rated Swiss parent, **Raiffeisen Group** (Raiffeisen acquired Notenstein in 2012). For its part, Leonteq will "provide substantial services" related to issuance and distribution, including through EFG International. Raiffeisen is the third-largest banking group in Switzerland. In an interview with Bloomberg soon after he was hired to be sales head for Notenstein's structured products group, Claudio Topatigh said that while the $185 billion Swiss structured notes market was declining as a percentage of investor portfolios, "it can still be profitable for issuers that have strong links to domestic investors."

Management at **Investec Asset Management**, part of South African financial services firm **Investec**, paid £180 million ($270 million) for a 15% share in their firm. The management group, which included IAM founding member and CEO Hendrik du Toit, has an option to add another 5% over the next seven years. The group will pay for its stake equally through a combination of debt and equity (comprising cash, deferred bonuses, long-term incentive awards, and personal loans). Both the parent and IAM said they "strongly believe that institutional clients are attracted to asset management companies that have significant operational independence and alignment of incentive structures to long-term performance." IAM manages £70 billion ($105 billion) in assets, the majority for institutional investors, with AUM having doubled since 2007; it also accounts for a third of the parent's profits. In a 2012 interview with *Pensions & Investments*, du Toit emphasized that the firm is not driven by volume, noting his belief that strong organizations can compensate for smaller size. "We run with the same operating margins as managers with $1 trillion. So you can also create a lot of clatter and a lot of complexity and a lot of inefficiency when size is your only objective. We don't live with those inefficiencies, which means our lives are more pleasant."

WEALTH MANAGEMENT

The formerly staid and lucrative Swiss private banking business continues to endure official disruption from governments that only a decade ago were content to focus on that nation's efficiency and natural beauty and turn a blind eye to what was happening in its offshore havens. As Swiss authorities and bankers grapple with officials from Berlin to Washington, D.C., they can place the blame for their changing fortunes squarely on the financial crisis and baby boomers.

The boomers are getting older and expect the costly goodies they were promised in retirement; the financial and economic crisis cost governments a fortune to resolve, including unprecedented deficit spending; and voters everywhere are generally testy about wealthy people not paying their "fair share." As this tug of war over money played out last year between national governments and the Swiss, the Alpine nation loosened its grip on the rope, agreeing in August to a U.S. Justice Department program to "encourage" Swiss banks to provide account information about U.S. citizens.

Banks that go along with the non-prosecution agreement will still face a penalty equal to 20% of the maximum aggregate value of all non-disclosed U.S. accounts held before August 2008 and between 30% and 50% for accounts opened after that date. (The dozen or so Swiss banks currently under criminal investigation by the U.S. are not eligible for the program.) In a separate action in September, the Swiss Parliament approved a law allowing the nation's banks to cooperate with U.S. tax authorities in the future, in compliance with Washington's Foreign Account Tax Compliance Act.

European Union nations have been pushing for their own deal with the Swiss, who faced added pressure on the Continent after Luxembourg and Austria caved in last spring and dropped their opposition to EU-wide transparency rules. Luxembourg, a major offshore banking center, didn't pledge complete transparency, however, as it restricted the information to interest payments for individuals. Investors in other products, as well as legal and corporate entities, were left alone.

The path to these various deals was laid in 2009, when **UBS** agreed to pay $780 million to settle civil and criminal charges alleging it helped Americans evade taxes, and to turn over the names of some of the clients. The nation's oldest private bank, Wegelin & Co., shut down last year following a guilty plea to similar U.S. charges. Since 2012, 22 of the nation's 300 banks have quit private banking due to mergers or liquidations, according to the Swiss Financial Market Supervisory Authority. Commenting on the Swiss banking controversy in an op-ed piece last June in the *Financial Times*, Philipp Hilderbrand, vice chairman of **BlackRock** and former chairman of the governing board of the Swiss National Bank, made an analogy to the John Wayne movies he used to enjoy as a boy. "It was clear that, with enough firepower, might would prevail. Switzerland and its banks were slow to recognise this simple truth. The price to pay is now uncomfortably high."

In 2013, Swiss firms were at the center of two significant deals in the wealth sector, as the industry continued to remake itself in line with new realities, including expansion into other markets. Within Switzerland, **Union Bancaire Privee** made an opportunistic purchase of **Lloyds Banking Group**'s loss-making Swiss-based wealth business. Lloyds, 39% owned by the British government at the time of the deal last May, has as part of its bailout been disposing of assets and paring its non-U.K. operations. Last year, the firm also sold its Miami private bank to Spanish bank **Sabadell** *(see Cross Border)*, as well as **Scottish Widows Investment Partnership** to **Aberdeen Asset Management** *(see Money Management)*. However, Lloyds has returned to profitably, and the government earned a $95 million profit off the September sale of 6% of the bank's shares.

The U.K., which has seen a spate of wealth deals in recent years in response to cost and regulatory pressures, played host to the largest such transaction in 2013: Schroders' £424 million ($645 million) purchase of Cazenove Capital.

Through the Lloyds acquisition, UBP added nearly CHF 10 billion ($10.2 billion) to the CHF 83 billion in assets it already managed. UBP called the deal "a key step in the execution of [its] strategy to grow its global presence and expand its private banking activities." The Lloyds business enhances UBP's footprint in Switzerland, the Middle East and Latin America, and adds offices in Gibraltar and Monaco. The company could pay as much as £100 million ($150 million) for the business, with a third of the price based on performance over two years. For UBP, the deal continues a comeback from the reputational hit it took in 2008, when the bank revealed that its customers had exposure to Bernard Madoff's investment vehicles. UBP, with a large fund of hedge funds business, subsequently saw its assets drop by nearly half to CHF 75 billion. UBP has made two other European acquisitions since 2011, for the Swiss private bank of **ABN Amro** and alternatives asset manager Nexar Capital Group.

Credit Suisse acquired **Morgan Stanley**'s European, Middle East and Africa (EMEA) wealth business, in the second deal in as many years involving a Swiss private bank picking up assets from a major American seller. In 2012, **Julius Baer** bought **Merrill Lynch**'s international wealth business. That same year, Morgan Stanley sold its U.K. wealth manager, Quilter. For Credit Suisse, the acquisition adds a relatively spartan $13 billion in AUM to its large wealth management business. But the assets are primarily located in the U.K. and will make the firm a top-10 wealth manager in that market, while enhancing scale in other "key growth markets" such as Italy, Eastern Europe and Russia. Although price was not reported, observers placed it in the area of $150 million.

Between 2009 and the first half of 2013, Credit Suisse's Asia and EMEA businesses accounted for 60% of net new wealth management assets of CHF 143 billion ($150 billion), while Switzerland represented just 14%. Separately, Credit Suisse sold its **J O Hambro Investment Management** business to **Bermuda National Limited**, as well as its two private equity businesses *(see Cross Border and Hedge Funds/Private Equity)*; it was also seeking a buyer for its German private client business. Morgan Stanley sold its wealth management business in India to **Standard Chartered** *(see Cross Border)*.

The U.K., which has seen a spate of wealth deals in recent years in response to cost and regulatory pressures, played host to the largest such transaction in 2013: **Schroders**' £424 million ($645 million) purchase of **Cazenove Capital**. The deal merges two venerable names in British asset management, with both firms having been established in the early 19th century. Cazenove adds £12.1 billion ($18.4 billion) in wealth assets to the £16.3 billion Schroders already managed, plus another £5.1 billion in funds. Cazenove, which retains its name, generated 20% growth in AUM between the first half of 2012 and the time of the deal announcement in the first quarter of 2013. Michael Dobson, chief executive of Schroders, said the transaction "creates a leading, independent private banking and wealth management business in the U.K., and brings additional investment talent in complementary strategies" in the larger asset management business. Schroders expects to wring up to £15 million in annual cost savings through synergies.

Largely known for its funds business, Schroders had £212 billion ($325 billion) in total AUM prior to buying employee-owned Cazenove, with nearly 60% from institutions. The firm initially approached Cazenove about a deal in 2010 before returning in late 2012 for more serious bargaining. Prior to buying Cazenove, Schroders had surplus capital of £1.1 billion. With that healthy balance sheet, Schroders had begun doing some shopping in 2012, extending its presence in the U.S. with the acquisition of **STW Fixed Income Management** and buying a 25% interest in **Axis Asset Management** of India.

Standard Life Investments, one of Europe's largest asset managers (AUM: £179 billion/$285 billion) and a subsidiary of Edinburgh-based savings and investment firm **Standard Life**, acquired the private client division of **BNY Mellon**-owned **Newton Management** of London, beating out British rivals **Quilter Cheviot Investment Management** and **Rathbone Brothers**. Depending on the value of assets transferred and retained, Standard Life could pay up to £83.5 million ($125 million) for the division, which had £3.6 billion in AUM and more than triples discretionary assets in the **Standard Life Wealth** (SLW) unit. Standard Life said the deal "represents a rare opportunity to acquire a high-quality book of business, as well as a skilled and dedicated client-facing workforce, without any legacy operations or systems." Newton's long-only investment focus also complements SLW's specialty in managing risk by adjusting asset allocation.

Wealth Management Transactions

	2009	2010	2011	2012	2013
Number of Transactions	47	39	56	60	**57**
Combined Value ($B)	$5.2	$9.9	$1.1	$3.6	**$3.3**
Total Seller AUM ($B)	$246	$518	$80	$240	**$371**
Average Deal Size ($M)	$111	$254	$19	$60	**$58**
Average Seller AUM ($B)	$5.2	$13.3	$1.4	$4.0	**$6.5**

Source: Berkshire Capital Securities LLC

In a small cross border wealth deal, Sweden's **Handelsbanken** extended its established presence in the U.K. through the acquisition of 25-year-old **Heartwood** (AUM: £1.5 billion/$2.4 billion). Handelsbanken, with operations throughout Europe, said the deal ensures the bank will be able to "cater [to] our customers' wealth management needs" and thereby "strengthen our customer satisfaction and relationships even further." The U.K. is Handelsbanken's fastest-growing market.

In the U.S., activity was notable for the number of financial buyers and consolidators that made multiple acquisitions, including prominent firms such as **United Capital Financial Partners** and **Focus Financial Partners**, as well as newer players like **Banyan Partners** and **Argent Financial Group**. There were also three significant North American cross border deals involving two Canadian buyers, **Canadian Imperial Bank of Commerce** and **Fiera Capital Corp**.

The largest U.S. deal saw two private equity firms, **Aquiline Capital Partners** and **Genstar Capital**, team up to acquire the wealth management arm of insurer **Genworth Financial**, which had been on the sale block since at least 2012. The $413 million deal for **Genworth Financial Wealth Management** included the **Altegris** unit, an alternative investor. GFWM is a turnkey asset management platform that counts 6,000 independent financial advisors among its customers and has $20 billion in assets. Aquiline and Genstar said they will "enhance product development and technology offerings" at GFWM and "expand distribution channels and launch new alternative products" at Altegris. They also plan to rebrand the firm.

In a reference to GFWM's secondary position at Genworth Financial, company president and CEO Gurinder Ahluwalia told RIABiz, "For me, the tangible is you want to be somewhere that you are core to everything they do. You want to be something that the parent gets excited about." New York-based Aquiline, started in 2005 by Jeff Greenberg (son of **American Insurance Group**'s "Hank" Greenberg), has been an active buyer of financial services firms, including asset managers such as **Conning**, an institutional firm serving the insurance industry, and **HedgServ**, a global alternatives fund administrator. San Francisco-based Genstar, with $4 billion of committed capital under management, also invests in financial services firms, among other sectors. Richmond, Va.-based Genworth Financial, which suffered losses in its mortgage guaranty business from 2007 through early 2012, has been restructuring its operations around its core insurance business.

Affiliated Managers Group cut its second deal through the **AMG Wealth Partners** unit, taking a minority stake in **Clarfeld Financial Advisors** of New York. Clarfeld, founded in 1981 and with an additional office in London, has $4 billion in assets and expertise in assisting expatriate American executives and their families. President and CEO Rob Clarfeld said the AMG connection will provide for "enhanced opportunities for growth, especially in our non-domestic business, given the scale and resources of a global financial partner." *Barron's* has named Rob Clarfeld the No. 1 independent advisor in New York and the Northeast for five consecutive years. AMG Wealth Partners was formed in 2011 to invest in boutique wealth managers. AMG also acquired a majority interest in small- and mid-cap specialist **SouthernSun Asset Management** *(see Money Management)*.

Banyan Partners, a large, independent wealth manager based in Florida, announced its national ambitions in the form of three geographically diverse acquisitions last year. The first and largest for 5-year-old Banyan involved the **Silver Bridge Advisors** wealth unit of law firm WilmerHale. Boston-based Silver Bridge added $1.9 billion in assets under management and advisement to Banyan's $1.5 billion in assets. The other two deals, adding a total of $1 billion in assets, were for **Rushmore Investment Advisors** of Dallas and **Holt-Smith Advisors** of Wisconsin. The transactions followed a capital infusion in Banyan from a Toronto investor and financial services specialist, **Temperance Partners**. Banyan was started by Peter Raimondi, who had previously founded and run Boston wealth manager **Colony Group**, which he sold in 2006. The three deals, on top of several in 2011, give the firm nine offices nationwide. Banyan's targets: small, established firms with partners in their 40s or 50s. Although Raimondi defers on how large he'd like his firm to get, he told *Financial Advisor*, "We'll get as big as [we] need to get to continue to offer all the solutions necessary to prospects."

Another independent firm, Argent Financial Group of Louisiana, expanded its Southern footprint with three acquisitions, the largest of which was for **Highland Capital Management** of Memphis. Nearly 40 years ago, noted Memphis businessman Abe Plough formed Highland to help manage his fortune following the merger of his pharmaceutical firm with Schering. In 2011, Highland president Steve Wishnia, who ran the firm from its inception, bought out Highland from parent **First Horizon National**. Wishnia told the *Commercial Appeal* of Memphis that "combining with another entity now was a good thing for my employees and would give us more resources for our clients." In addition, Argent acquired San Antonio's **Trust Company**, which said its board had "reviewed numerous options as we planned for the [company's] future." The third deal involved South Carolina's **East Broad Trust**. The three transactions doubled Argent's assets to $6 billion.

Canadian financial firms continued to head south of the border, capitalizing on their financial strength and a currency on par with the greenback. In the marquee deal, Canadian Imperial Bank of Commerce paid $210 million for Atlantic Trust Private Wealth Management.

Focus Financial Partners made several investments last year that added to its sizable portfolio of wealth affiliates. One of the larger deals involved **Telemus Capital Partners**, a suburban Detroit firm with $2 billion in assets. For Telemus, the link to Focus provides capital for its own potential acquisitions and back-office support in such areas as technology and marketing. A second deal, done through St. Louis-based affiliate **Buckingham Asset Management**, was for Dallas-based **JWA Financial Group**. Last year, Focus received a $216 million investment from **Centerbridge Capital Partners II** that made the New York-based private equity firm the largest minority shareholder. Focus CEO Rudy Adolph said the capital will be used primarily to help shareholders cash out a part of their investments (Adolph said he will also sell some of his shares). Other significant Focus investors include **Summit Partners** and **Polaris Ventures**. Focus, founded by Adolph in 2006 and based in New York, has more than $60 billion in assets through its various affiliates.

Wealth aggregator United Capital Financial Partners also cut several deals in different geographies, the most significant one involving Seattle-based **Paragon Investment Management**. "The Northwest region was a gaping hole in our national footprint," United Capital CEO and founding partner Joe Duran told *Investment News* in explaining the deal. An established wealth manager, Paragon has more than $1 billion in assets, with an average client having $4 million in assets. Duran said his firm may use the Paragon name to differentiate the high net worth part of United Capital's business from the mass affluent. The other two deals United Capital did were for **PPA Advisors** of Atlanta (AUM: $220 million) and a Washington area firm with $300 million in assets, **c5 Wealth Management**. In total, United Capital and its affiliates have more than $17 billion in assets.

Broker-dealer giant **LPL Financial** acquired a Florida wealth manager, **Ingham Retirement Group**, which specializes in retirement planning for high net worth business owners. Ingham, founded in 1972 and with $1 billion in AUM, bills itself as one of the Southeast's largest retirement planning consulting firms. The company cited LPL's "extensive technological, research and support capabilities" in explaining its decision to sell. **Citigroup** sold its Delaware-based trust company, with $1.5 billion in assets under administration, to the Delaware-based trust subsidiary of Atlanta's **Reliance Financial Corp.** Citi described the unit as a non-core part of its larger trust business, while Reliance said it doubles the size of its Delaware trust business.

Evestnet, an open-architecture turnkey technology firm, acquired the **Wealth Management Solutions** business of **Prudential Financial**, with $24 billion in assets under administration. Evestnet could pay up to $33 million, largely in contingency payments over three years. The company said the deal strengthens its leadership in managed accounts and in the bank and trust channel, while extending its presence in Canada.

Canadian financial firms continued to head south of the border, capitalizing on their financial strength and a currency on par with the greenback. In the marquee deal, Canadian Imperial Bank of Commerce paid $210 million for **Atlantic Trust Private Wealth Management**. One of the larger independent wealth managers in the U.S., Atlantic has 12 offices nationwide and nearly $20 billion in AUM. The company, part of **Invesco**, says 25% of assets involve clients with $100 million or more in assets and more than half is managed for clients with between $5 million and $75 million in assets. The firm also claimed 24 consecutive quarters of positive net inflows, as of March 2013. CIBC's private banking business generated C$32 million ($31 million) in revenues in the 2013 third quarter, a 28% increase over the same period in 2012. The bank's overall wealth management business, including its asset management and brokerage units, generated net income of more than C$100 million during the same quarter, or 11% of CIBC's total net income.

CIBC said the acquisition provides it with "an attractive entry into the U.S. private wealth market." The deal also marks another step in CIBC's U.S. ambitions: In 2011, the Toronto-based bank made an $848 million investment in mutual fund provider **American Century**. (In a 2012 Canadian deal, CIBC acquired the small private wealth business of **MFS McLean Budden**.) Soon after the Atlantic Trust agreement was reached, a scandal erupted at the wealth manager following the suicide of one of the firm's advisors, who was allegedly running a Ponzi scheme. Still, in its third-quarter press release, CIBC said the transition was "on track" and the deal is expected to close in early fiscal 2014.

Fiera Capital Corp. of Montreal made its first U.S. acquisitions in purchasing two established U.S. wealth managers, paying $125 million for **Bel Air Investment Advisors** of Los Angeles and $31 million for New York's **Wilkinson O'Grady & Co.** Combined, the two firms have more than $8 billion in AUM, primarily through Bel Air, and increased Fiera's AUM to C$74 billion ($70 billion) and its wealth management AUM from 3% to 14% of the total. On the revenue side, the deals boost private wealth to 36% of the total from 9% while lessening dependence on institutions (37% vs. 52% prior to the deals).

Jean-Guy Desjardins, chairman and CEO of Fiera, touted the "tremendous growth potential in the U.S. private wealth and investment management market" and said the acquisitions "fit perfectly with our plan to create value by becoming a leading North American investment firm within the next five years." Todd Morgan, senior managing director of Bel Air, told *Investment News*, "We want to grow more. We now have the capital to accomplish that." Bel Air's clients tend to have $20 million or more in assets. Since 2012, Fiera has made seven acquisitions in Canada and the U.S., including a transformational one for the asset management business of **National Bank of Canada**. The company's AUM has more than doubled since 2011, with Desjardins having set a goal of C$150 billion in AUM over the next five years. Last year, Fiera also acquired hedge funds managed by **GMP Investment Management** *(see Hedge Funds)*.

There were two Canadian transactions involving domestic operations, the larger of which featured a cross border seller, **Macquarie Group**. In that deal, Toronto-based **Richardson GMP** strengthened its position as Canada's largest independent wealth manager with the C$132 million purchase of Macquarie's Canadian retail business, in the process nearly doubling assets under administration to C$28 billion. Richardson, which will help pay for the acquisition of **Macquarie Wealth Management** with a share issue, has seen its assets grow from C$11 billion to C$15 billion in recent years. Andrew Marsh, president and CEO of Richardson, told Business News Network that the firm's business model indicated that C$25 billion in assets "was going to be a pretty fantastic place to be. The question then became, do we recruit one by one to get there or do we take advantage of this opportunity? This opportunity puts us at $28 billion, and so that scale really drives some fantastic financials."

The second deal saw **Canadian Western Bank** acquire 55% of **McLean & Partners Wealth Management** (AUM: C$1 billion), as part of the Edmonton-based bank's effort to expand non-interest revenue and earnings. Management at McLean & Partners retained the rest of the equity. During the bank's second-quarter conference call, president and CEO Chris Fowler noted that the addition of McLean will enhance the competitiveness of CWB's wealth management practice, in particular for the bank's clientele of business owners. Fowler added that the bank would be likely to "continue to look for opportunities." CWB also holds a majority stake in **Adroit Investment Management**, an Edmonton wealth manager with around C$1 billion in AUM. McLean, based in Calgary, called the deal a "tremendous opportunity" to join forces with "a financially strong and growing Western Canadian financial institution."

There were a couple of notable cross border deals for wealth managers that involved purely domestic operations: **Sumitomo Mitsui Banking Corp.**'s acquisition of **Societe Generale Private Banking Japan** and **Religare Enterprises**' purchase of Macquarie's stake in their Indian wealth management joint venture *(see Cross Border)*.

CROSS BORDER

Five years after the start of the crisis that shook the world's financial system, the European banking industry continues a metamorphosis designed to ensure the banks are leaner, more focused and better capitalized — in short, better able to withstand a systematic shock than they were in 2008. As part of that process, banks and other financial institutions have been divesting assets ranging from loan books to entire business units.

The numerous firms that required government bailouts have been among the most notable institutions restructuring. But even solid banks such as **Rabobank** have been making changes. The Dutch farmers' co-operative, whose loan portfolio largely involves food and agriculture businesses, came out of the financial crisis in good shape. Its Tier 1 ratio was a sturdy 12.7% in 2008 and climbed another 1.1 points in 2009, and the bank retained its Triple-A rating until 2011, when Standard & Poor's dropped it two notches to Double-A. Still, in a December 2012 interview with the *Financial Times*, Rabobank chairman Piet Moreland indicated that the bank's rapid growth in assets since the late 1990s would slow down as it began "de-risking and deleveraging" and making "selective choices."

Last year, one of Rabobank's choices involved selling its **Robeco** asset management unit for €1.9 billion ($2.6 billion). In the process, the bank made its second contribution to the ongoing revamp of the Continent's asset management industry. In 2011, Rabobank sold its Swiss private bank, **Bank Sarasin & Cie**, for $1.1 billion to **Safra Group**. At the time, Rabobank was seeking capital to secure the triple-A credit rating it eventually lost from Standard & Poor's. With last year's sale, Rabobank was aiming in part to strengthen its Tier 1 ratio to meet the new and more rigorous Basel III regulations, with the transaction boosting the number by 70 basis points. As a bank-owned asset manager, Robeco would also have been subject to significant regulatory changes in the Netherlands affecting compensation and distribution charges, among other rules.

That the buyer was Tokyo's **Orix Corp.** is also instructive for what it says about Japan's evolving financial industry. Faced with an aging and declining population, marginal economic growth, and perennially low interest rates, Japan's financial firms are spreading their wings. Orix has been making overseas acquisitions and diversifying away from low-profit loans and leasing and into more lucrative fee-related businesses. Orix's acquisition of 90% of Robeco was the largest asset management deal of 2013 and one of three noteworthy cross border asset management deals made by Japanese firms. Rabobank retained 10% of the equity in Robeco, which has €190 billion ($255 billion) in AUM split about evenly between retail investors and institutions. Pricing on the deal was 11.2 times EBITDA and 1.14% of AUM.

Robeco extends Orix's asset management footprint into Europe and enhances its presence in the U.S., where Robeco is the parent of **Harbor Capital** (AUM: $70 billion) and **Robeco Investment Management**. In the U.S., Orix already owns hedge fund manager **Mariner Investment Group**, acquired in 2010, as well as commercial mortgage lender **Red Capital**. (Mariner announced its own acquisition, of **Concordia Advisors**; *see Hedge Funds/Private Equity*.) The Robeco portfolio also includes the Netherland's largest hedge fund and one of the largest managed futures firms, **Transtrend** (AUM: €6 billion/$8 billion). Meanwhile, Orix's Asian network provides Robeco with expansion potential in that region. Robeco has enjoyed strong growth since the financial crisis, with AUM jumping 70% between 2008 and 2012, including net inflows of €18.4 billion ($25 billion) in 2012; net earnings were €197 million ($260 million) that same year. The firm will retain its branding and management, and Orix and Rabobank said they "plan to jointly maintain and develop Robeco's business platform in Europe."

A second Japanese-European deal that involved purely domestic operations saw **Sumitomo Mitsui Banking Corp.** acquire **Societe Generale Private Banking Japan** (SGPB). The Japanese subsidiary of French bank **Societe Generale** had offices in Tokyo and Osaka and ¥408 billion ($4 billion) in AUM, or less than 4% of SocGen's global private banking assets. SocGen said it will focus on private banking in "markets where it is best positioned to further expand, given its strengths and competitive advantages." Sumitomo said it will deliver new services and products to SGPB clients as it seeks to improve that business. Last year, as part of a push into Southeast Asia, Sumitomo also paid $1.5 billion for a significant minority stake in Indonesia's **PT Bank Tabungan Pensiunan Nasional**. Between the 2011 and 2013 fiscal years, Sumitomo's non-Japanese revenues rose from 10% to 18% of the total. In addition to divesting the Japanese business, SocGen was reportedly mulling the sale of the rest of its Asian private banking business, based in Singapore.

Osaka's **Nippon Life Insurance** headed to the U.S. to take a minority stake in **Post Advisory Group** from parent **Principal Financial**. One of Principal's boutiques, Post (AUM: $11.8 billion) is a high-yield specialist with a multi-strategy, value orientation. Nippon pointed to the growth in the high-yield market in both the U.S. and Japan, saying it will offer Post products through its **Nissay Asset Management** unit. The Japanese insurer said the transaction will also foster the expansion of an asset management partnership with Principal. NAM has ¥6 trillion ($65 billion) in AUM, more than 80% of which is managed for institutions. In 2012, the company paid $290 million for a minority stake in one of India's largest asset managers, **Reliance Capital Asset Management**, and last year sought to expand its Indian presence by reaching agreement with holding company **Reliance Group** to invest in a new bank. Nippon also has a minority investment in Reliance's insurance arm. Meanwhile, Principal extended its international footprint last year by taking a majority stake in British fund of hedge funds manager **Liongate Capital Management** *(see Hedge Funds/Private Equity)*.

There were several other deals of note in Asia, with India and South Korea taking the spotlight from the usual activity in China and Hong Kong. China continued to reform its asset management industry, however, by expanding the role of foreign financial services firms and insurers in

Cross Border Transactions

U.S. - INTERNATIONAL	2009	2010	2011	2012	2013
Number of Deals	8	17	21	22	**27**
Value ($B)	$1.4	$3.9	$2.8	$3.0	**$3.9**

INTERNATIONAL - INTERNATIONAL	2009	2010	2011	2012	2013
Number of Deals	13	20	27	26	**22**
Value ($B)	$3.2	$2.0	$2.4	$1.7	**$3.9**

TOTAL	2009	2010	2011	2012	2013
Number of Deals	21	37	48	48	**49**
Value ($B)	$4.6	$5.9	$5.3	$4.7	**$7.8**

Source: Berkshire Capital Securities LLC general. Shanghai regulators opened the door to foreign hedge funds via a trial program in which six U.S. and British firms will raise $50 million each from Chinese institutions to invest outside the nation. The participants include such powerhouses as **Citadel**, **Man Group** and **Winton Capital**. In a victory for foreign banks, **Citigroup, HSBC** and five other non-Chinese banks were given the green light from China's securities regulator to sell domestic mutual funds to Chinese customers. Previously, foreign banks had been limited to selling Qualified Domestic Institutional Investor funds that invest outside China.

Cross Border Transactions by Domicile and Type

2013	BUYER: SELLER:	U.S. INT'L	INT'L U.S.	INT'L INT'L	TOTAL
Wealth Management		1	4	9	**14**
Money Management		9	5	7	**21**
Other		6	2	6	**14**
Total		**16**	**11**	**22**	**49**

2012	BUYER: SELLER:	U.S. INT'L	INT'L U.S.	INT'L INT'L	TOTAL
Wealth Management		1	2	7	**10**
Money Management		5	6	12	**23**
Other		5	3	7	**15**
Total		**11**	**11**	**26**	**48**

Source: Berkshire Capital Securities LLC

Regulators also granted permission to insurance companies to offer mutual funds — a significant change given the distribution power of insurers. One deal of note building off the liberalization of China's markets saw Swiss fund of hedge funds manager **Gottex Fund Management Holdings** establish a joint venture with Shanghai investment firm **VStone Asset Management**. The venture is designed to provide non-Chinese institutions and qualified individuals with access to China's onshore equity and bond markets, as well as domestic mutual funds; it will also serve to distribute Gottex products in China. In 2012, Gottex acquired Hong Kong fund of hedge funds firm Penjing Asset Management as part of an Asian expansion. Last year, Gottex also bought a majority share in a small U.K. multi-asset manager, **Frontier Investment Management**.

In India, where financial markets and the economy have been facing headwinds in recent years, a couple of firms were retreating. **Macquarie Group** of Australia sold its stake in the Indian wealth management joint venture it formed in 2007 with New Delhi-based **Religare Enterprises**, as part of a larger exit from wealth management in Asia. Religare, a financial services firm controlled by the billionaire Singh brothers (Malvinder and Shivinder), said the deal will help drive growth by "bringing together the broader Religare ecosystem... under a common unified umbrella." The wealth management unit has $420 million in AUM and nearly 5,000 clients. Religare holds stakes in two U.S. alternative asset managers, **Landmark Partners** and **Northgate Capital**. Macquarie also sold its Canadian wealth business *(see Wealth Management)*.

After a nearly 4-year run in the market, **Morgan Stanley** sold its Indian wealth business to emerging markets specialist **Standard Chartered**. With the acquisition, StanChart adds $800 million in AUM to the $3 billion it already managed, enhancing its position as one of the largest wealth managers in the country. A local business publication placed the transaction price at $15 million. Morgan Stanley retains a separate asset management business in India, along with an investment bank. In the first six months of 2013, StanChart's wealth management group accounted for 7% of operating income, or $686 million, an 8% increase compared with the same period in 2012.

While Macquarie was exiting the wealth business in India, it expanded its asset management business in South Korea via the purchase of **ING**'s local unit. With the addition of **ING Investment Management Korea** (AUM: $23 billion), Macquarie became the largest foreign asset manager in the country. The company said it will make its "global investment capabilities" available to ING IMK's clients, primarily comprising institutions. While the Korean retail market has proved difficult for foreign players — in part because domestic firms dominate distribution — the institutional market has $1.5 trillion in assets and is growing rapidly. Moreover, institutions are increasingly looking overseas for investment opportunities, including the giant **National Pension Service**. Dutch financial services firm ING has been divesting its global asset management and insurance businesses as part of a bailout agreement. ING also sold its South Korean life insurance business to local private equity firm **MBK Partners** for $1.7 billion, as well as its Hong Kong, Macau and Thai insurance businesses. ING has one major asset management business left in Asia, in Taiwan.

New York Life Insurance formed a strategic alliance with **Samsung Life** in South Korea that will include the introduction of a new retail fund seeded by both partners, the **Samsung-U.S. Dynamic Asset Allocation Fund**. New York Life said the firms will also explore "joint asset management opportunities in the broader Asian marketplace." Samsung Life is part of shipbuilding-to-electronics conglomerate Samsung Group, which also owns the nation's leading asset manager, **Samsung Asset Management** (SAM). Both New York Life and Samsung have similar asset management businesses, with a significant percentage of their respective assets managed for the parent company. New York Life has managed fixed income investments for SAM for more than a decade. New

York Life, which made a series of U.S. acquisitions in 2012, said it expects the affiliation "to enhance the ability of our boutiques to attract other Korean institutional clients."

New York Life also factored in one of two major transatlantic deals with the €380 million ($514 million) cash purchase of the asset management arm of **Dexia**, a transformational deal for the mutual life insurer that extends its footprint into Europe, as well as Australia through **Ausbil Dexia**. For New York Life, the €74 billion ($100 billion) in AUM it gains from Dexia boosts third-party assets to $273 billion and total AUM to $490 billion, making the firm one of the larger global players. John Kim, chairman and CEO of **New York Life Investments**, said the Franco-Belgian firm provides his clients with "access to the company's highly rated funds, strong European platform and established Australian equities business."

The aggressive overseas expansion stands in sharp contrast to New York Life's insurance business, which operates in just one market outside the U.S., Mexico. **Dexia Asset Management** (DAM) CEO Naim Abou-Jaoude praised his new parent's multi-boutique structure in saying that "the integrity of our investment processes and culture is preserved and we will maintain our existing platforms and commercial presence." For Dexia, the sale is another in a long line of divestitures driven by the terms of its bailout agreement. In 2012, Hong Kong investor **GCS Capital** agreed to pay around the same price as New York Life paid for DAM, but the deal collapsed over the summer of 2013.

A second large transatlantic deal saw U.S. private equity firms **Warburg Pincus** and **General Atlantic** team up to pay around €1 billion ($1.3 billion) for 50% of Santander's asset management business, or 1.5% of AUM. The two partners said their goal is to double in five years **Santander Asset Management**'s €152 billion ($196 billion) in AUM and "participate in the consolidation process taking place in the industry." Currently, SAM's business operates in 11 markets in Europe and Latin America, with about one-third of assets in Spain and 40% in Latin America (primarily Brazil). The three partners will form a new holding company for SAM. In 2011, Warburg and two other partners took a 25% stake in Santander's U.S. consumer loan business, and the two firms are reportedly exploring other areas of cooperation. General Atlantic also completed a $171 million deal announced in late 2012 to take a minority share of Brazil's **XP Investimentos**, an independent broker-dealer and investment advisor with 390 offices throughout that country.

New York Life also factored in one of two major transatlantic deals with the €380 million ($514 million) cash purchase of the asset management arm of Dexia, a transformational deal for the mutual life insurer that extends its footprint into Europe, as well as Australia through Ausbil Dexia.

Another high-profile transatlantic deal involved **BlackRock**'s acquisition of **Credit Suisse**'s European exchange traded fund business — the second tack-on ETF deal the company has done since 2012. The world's largest asset manager, BlackRock is also the leading player in the ETF market, with more than $800 billion in AUM through its **iShares** brand. The Credit Suisse business — a top-five player in Europe's ETF market with $18 billion in assets and 58 products — adds to BlackRock's leading position in Europe and bolsters its position in Switzerland's ETF market, where about half of the acquired assets are domiciled. Following the close of the deal, the Credit Suisse ETFs were rebranded under the iShares name. In 2012, BlackRock acquired Canadian ETF provider Claymore Canada, in the process adding to its dominant share in that market. As of the first quarter of 2013, BlackRock had $170 billion in ETF assets in its Europe, Middle East and Africa region. BlackRock also acquired the real estate advisory unit of **Macquarie Bank** *(see Real Estate)*.

Additionally, Credit Suisse sold its **J O Hambro Investment Management** unit to **Bermuda National Limited**. BNL paid £50 million ($75 million) for 63% of the equity, with management and employees holding the rest. Based in London, J O Hambro manages portfolios for private clients and institutions and provides a suite of in-house managed funds. J O Hambro has £4.8 billion ($7.2 billion) in AUM and another £1.2 billion in assets under control. Stephen Browne, director at J O Hambro, told London's Citywire that the company was seeking to expand its client base to include Americans and Asians. "There are different ways of capturing those clients in London or offshore jurisdictions, and BNL has a lot of international experience, so we hope to tap into what they can offer us." BNL is the parent of **Bermuda Commercial Bank**, one of Bermuda's four licensed banks, and also owns London-based stock broker **Westhouse**.

Last year, Credit Suisse did make one acquisition, of Morgan Stanley's European, Middle East and Africa wealth business *(see Wealth Management)*. As part of a post-crisis restructuring, Credit Suisse under American CEO Brady Dougan has been placing greater emphasis on its wealth management business as a more efficient use of capital than investment banking, although the firm has been deemphasizing some of its smaller wealth markets in Asia and Africa. In fact, Credit Suisse said its private bank will quit about 50 marginal markets primarily in those two regions.

Goldman Sachs acquired the U.S. stable value business of **Deutsche Bank**, with nearly $22 billion in assets under supervision. The transaction builds on the deal Goldman made in 2012 for another stable value business, **Dwight Asset Management**, and is in line with the firm's effort to expand its defined contribution franchise. Goldman's defined contribution business had $55 billion in assets prior to the transaction, including $34 billion in stable value. While emphasizing its commitment to the U.S. asset management market, Deutsche Bank said "we have opted not to participate in the consolidation of the stable value sector." The industry had a total of $646 billion in assets as of 2011 (the latest year for data), up 20% over 2010. In a second and similar deal involving conservative assets, Goldman acquired more than $12 billion in money market funds from **Royal Bank of Scotland**, saying the deal "emphasizes our strong and continued commitment to providing liquidity solutions on a global scale." One-third of Goldman's $195 billion in money market assets are in Europe. The deal comes as regulators in Europe and the U.S. consider new rules that would compel money market managers to use variable net asset values and hold more capital against potential redemptions.

Two other transatlantic deals of note involving European buyers saw Scotland's Aberdeen Asset Management pay $180 million for New York's Artio Global Investors and French asset manager Amundi acquire fixed income specialist Smith Breeden Associates of North Carolina.

Spanish bank **Sabadell** bought **Lloyds Banking Group**'s private banking business in Miami, paying $6 million upfront. An additional payment will be due equivalent to 0.5% of the assets the bank is still managing a year after the deal closes. The acquired bank had $1.2 billion in AUM at the time of the announcement, with Sabadell suggesting a likely overall price of $12 million. Sabadell has managed a private banking operation in Miami for 20 years. "This acquisition significantly builds upon our promise to expand our presence in the Americas and to service international clients from our base in Miami," said Fernando Perez-Hickman, chairman of **Sabadell Americas**. It also builds on negotiations the two firms engaged in that saw Sabadell acquire Lloyds' Spanish business and Lloyds assume a stake in Sabadell, Spain's fifth-largest bank. In the third quarter of 2013, Sabadell raised €1.4 billion ($1.8 billion) in a share offering. Lloyds also divested its Swiss wealth business last year as part of its bailout restructuring *(see Wealth Management)*. Two other transatlantic deals of note involving European buyers saw Scotland's **Aberdeen Asset Management** pay $180 million for New York's **Artio Global Investors** and French asset manager **Amundi** acquire fixed income specialist **Smith Breeden Associates** of North Carolina *(see Money Management)*.

In a European distress sale, Canada's **Great-West Lifeco** paid €1.3 billion ($1.7 billion) for government-owned Irish Life, in the process gaining €37 billion ($50 billion) in AUM through **Irish Life Investment Managers**, the largest domestic asset manager. ILIM manages about 60% of its AUM for institutions and the rest on behalf of the insurance business. The firm has carved a niche for itself in index and fixed income/liability-driven investing. Great-West, which has operated in Ireland since 1903 through its **Canada Life** subsidiary, said the deal "affirms our long-term commitment" to the market and will be earnings accretive in 2014. Great-West is majority owned by **Power Financial Corp.**, a Winnepeg-based holding company that owns a majority of Canadian asset management giant **IGM Financial** and 100% of **Putnam Investments** in the U.S., as well as a stake in **China Asset Management**. Power is controlled by the Desmarais family, one of Canada's wealthiest families.

The Irish government said the transaction returned to taxpayers their entire investment in Irish Life. Great-West, which had reviewed a purchase of Irish Life in 2011, said the stabilization of the financial situation in Ireland and Europe since that time provided the clarity the firm needed to proceed. In more evidence of the aggressive expansion Canadian financial firms are engaging in since the financial crisis, Toronto-based **Sun Life Financial** joined Malaysia's **Khazanah Nasional** last year to pay $600 million for Malaysian life insurer **CIMB Aviva Malaysia**. Another Canadian life insurer, **Manulife Financial**, also made a bid for the firm. There were three wealth management deals involving Canadian and U.S. firms, including **Canadian Imperial Bank of Commerce**'s $210 million acquisition of **Atlantic Trust Private Wealth Management** *(see Wealth Management)*.

REAL ESTATE

There were multiple signs in Europe and the U.S. of the steady comeback of property markets, as the investors who both drive and feed off such gains evidenced increasing bullishness. Take the rebounding private equity industry, for example: It raised $46 billion for real estate funds in the first three quarters of 2013, 17% above the same period in 2012, according to Preqin. Activity picked up considerably after March and zeroed in on the U.S., with fundraising jumping 56% between March and September from the year-earlier period. The effort to raise capital grew a little easier, too, with the time involved in closing funds declining from 19.8 months in 2012 to 18.5 months last year. Preqin said the data demonstrates "increasing momentum in the fundraising market and improving appetite among investors" for real estate.

In Continental Europe, 17% of the investment in commercial real estate in the first half of 2013 was from outside the region — the highest proportion since the financial crisis, according to **CBRE**. In 2009, just 4% of investment was from outside Europe. **Blackstone** is aiming to raise as much as $5 billion for a European real estate fund, while **KKR & Co.** made its initial foray into Europe's property market by acquiring retail parks in the U.K., reportedly for $180 million. Total commercial real estate investment remains well off the peak levels that prevailed in 2007, however.

The European initial public offering market for property firms has also sprung to life, in part to compensate for a drop in bank loans. In the year through September 2013, some $4.5 billion was raised in IPOs, far more than in any year since 2007, according to Dealogic, with Germany and the U.K. centers of activity. The $800 billion **Government Pension Fund of Norway** (also known as the "oil fund"), the largest sovereign wealth fund in the world, is planning to boost its real estate asset allocation from 1% to 5%. En route to that more aggressive goal, the fund paid $684 million last year for a share of New York City's Times Square Tower.

Real Estate Transactions

	2009	2010	2011	2012	2013
Number of Transactions	6	18	11	10	**13**
Combined Value ($M)	$280	$960	$2,058	$230	**$875**
Total Seller AUM ($B)	$13.8	$79.8	$117.4	$38.9	**$77.9**
Average Deal Size ($M)	$47	$53	$187	$23	**$67**
Average Seller AUM ($B)	$2.3	$4.4	$10.7	$3.9	**$6.0**

Source: Berkshire Capital Securities LLC

Chinese investors were notable for their moves into markets that appeared to be veritable bargains compared with the frothy one at home. The U.S. commercial and residential markets were the recipient of $7.7 billion in Chinese investment in the first three quarters of 2013, according to CBRE, nearly 50% above the same period in 2012. One major deal saw China's largest residential developer, **China Vanke**, team up with **Tishman Speyer Properties** on a $620 million luxury condominium project on San Francisco's waterfront. Shanghai's **Greenland Holdings Group** took a majority stake in a multi-billion-dollar mixed-use project in Brooklyn, New York.

In the U.S. residential property market, prices in 20 major cities tracked by Standard & Poor's/Case-Shiller index rose more than 12% in July over the previous year's period, although pending home sales nationwide fell nearly 6% between July and August, according to the National Association of Realtors. The culprits: those increasing prices as well as higher mortgage rates. The chief economist for online residential property firm Trulia wrote in September that the housing market "is now 67% back to normal, compared with just 42% one year ago." Trulia based its assessment on data from construction starts, existing home sales and delinquency-foreclosure rates. The once-toxic U.S. commercial mortgage-backed securities market (CMBS) also continued to rebound, with analysts projecting the highest issuance since the financial crisis, at around $70 billion to $80 billion, compared with more than $40 billion in 2012. At the height of the real estate bubble in 2007, CMBS issuance reached $230 billion.

Within the context of a reviving global marketplace, the real estate advisory sector generated 13 deals in 2013 and drew several major and diversified asset managers as buyers, including **BlackRock**, **BTG Pactual**, **Carlyle Group** and **TIAA-CREF**. The most significant transaction saw BlackRock acquire **MGPA**, a private equity real estate advisory firm with $12 billion in AUM in Asia-Pacific and Europe. MGPA, which has raised $8.5 billion in capital, invests in development and redevelopment projects, joint ventures and real estate operating companies across a broad range of sectors. The deal nearly doubles AUM in BlackRock's real estate investment platform and "creates a truly global real estate investment manager" with substantial investment teams in the world's top six markets. BlackRock's existing real estate business had focused on the U.S. and U.K. markets. Although the deal is negligible within the context of BlackRock's massive business, the addition of MGPA does satisfy demand among the company's institutional clients for a broader choice of alternatives. MGPA was 56%-owned by Australia's **Macquarie Group**, with current and former management holding the rest of the equity.

Carlyle acquired private equity real estate fund of funds manager **Metropolitan Real Estate Equity Management** (AUM: $2.6 billion), which constructs and manages "vintage year" U.S., non-U.S. and global portfolios, including opportunistic private real estate funds. (Vintage year refers to a private equity fund's initial year of investment, as opposed to the fundraising time period.) Carlyle said the deal "strengthens our intellectual capital in global real estate" and is earnings accretive. Privately owned Metropolitan, based in New York and founded in 2002, will be wrapped into Carlyle's Solutions unit, where the flagship business is Dutch private equity fund of funds manager **AlpInvest Partners**. Last year, Carlyle also acquired fund of hedge funds manager **Diversified Global Asset Management** and bought the remaining 40% of AlpInvest it did not already own from two large Dutch pension funds, **ABP** and **PGGM** *(see Hedge Funds/Private Equity)*.

Los Angeles-based alternatives investor **Ares Management** acquired New York's **AREA Property Partners**, which has $8 billion in committed capital under management and investments in North America, Europe and India. Ares said the deal provides sponsors and investors with "the ability to find opportunities up and down the capital structure and across a broad geography within our real estate platform." In its real estate business, Ares targets the middle market commercial segment. In total, Ares has $66 billion in committed capital under management, double the amount in 2009, primarily in its private debt and credit businesses.

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Originally known as Apollo Real Estate Advisors, AREA was part of private equity firm **Apollo Global Management** before separating in 2000; however, the two firms maintained a business relationship for many years after. In acquiring AREA, Ares also bought out the stake owned by **National Australia Bank**. In a separate deal, **Alleghany Corp.** acquired a small stake in Ares *(see Hedge Funds/Private Equity)*.

Brazilian investment banking giant BTG Pactual acquired **Regions Timberland Group** from Alabama's **Regions Financial**, which has been divesting its asset management businesses. The deal establishes BTG as the largest independent timberland manager in Latin America and one of the largest worldwide, with committed and invested assets of $3 billion and a portfolio of 1.8 million acres, mainly in the U.S. and Latin America. BTG has more than $80 billion in assets under management and administration in its fund management business and nearly $30 billion in AUM in its wealth division. In another cross border deal, TIAA-CREF bought the U.S. advisory business of **Henderson Global Investors** and formed a joint venture with the London-based fund manager, **TIAA Henderson Global Real Estate**. The bulked-up firm will have $20 billion in AUM, primarily from Henderson, with TIAA-CREF paying nearly $180 million for a 60% stake. Henderson's U.S. business, which TIAA-CREF acquired in whole, has $2.5 billion in AUM.

For Henderson, the tie-up provides a deep-pocketed partner for seeding investments, as well as for co-investments. In the post-crisis world, co-investment has become a particularly important prerequisite for many institutions, which want their fund managers joining them in putting capital at risk. "What's been holding us back from greater [real estate] growth is that since the financial crisis clients expect managers to invest alongside them, and we have limited capital to do that," Henderson chief executive Andrew Formica told the *Financial Times*. "TIAA-CREF has the opposite problem with an abundance of capital."

For TIAA-CREF, the Henderson link delivers global capabilities while enhancing its real estate expertise. "This new venture will leverage TIAA-CREF's financial strength and long-standing real estate investment capabilities together with Henderson's expertise and wide array of real estate investments in Europe and Asia-Pacific," said Tom Garbutt, head of TIAA-CREF global real estate and chairman of the new joint venture. The joint venture, which aims to invest $1.5 billion in the years ahead, also plans to launch a new business initiative in commercial real estate debt, including co-investment from TIAA-CREF. Additionally, the parent companies agreed to "explore other strategic opportunities beyond the real estate sector."

Independent global real estate investment management firm **Forum Partners Investment Management** and **La Francaise** of Paris entered into a "strategic partnership" involving a $600 million capital commitment by La Francaise and parent **Credit Mutuel Nord Europe** to Forum's global suite of real estate investment strategies, as well as collaboration on new European investment products. As part of its investment, La Francaise will take a 24.9% stake in Forum, an independent real estate advisory firm with $5.7 billion in capital committed and under advice. La Francaise has around €36 billion ($48 billion) in AUM, including €8 billion in real estate in direct investments and funds. Forum manages its assets in funds and separate accounts for institutions and family offices. La Francaise said the deal allows it to "expand our real estate capabilities internationally." In a second European deal, **BNP Paribas Real Estate** acquired **iii-investments**, a subsidiary of **HypoVereinsbank** (**UniCredit Bank AG**). iii-investments manages €4.2 billion of third-party real estate and debt assets for German institutional investors, including pension funds, retirement plans and insurance companies. The acquisition makes BNP Paribas Real Estate one of Europe's top-10 real estate asset managers (AUM: €18 billion) and reflects the company's ambition to expand its business in the region.

HEDGE FUNDS/ PRIVATE EQUITY

Anthony Scaramucci, the gregarious founder and managing partner of **SkyBridge Capital**, ranks among the higher-profile individuals in the hedge fund industry. His 8-year-old New York-based fund of hedge funds firm has $9 billion in assets under management and advisement, he's penned two books about hedge funds, and he appears regularly on TV as a market commentator. Meanwhile, his annual SkyBridge Alternatives Conference has become one of the industry's best-known events, drawing nearly 2,000 people, including celebrity performers and headline politicians.

But Scaramucci has a problem: The lizard and duck "are taken," as he puts it. To counter that, he told *The Wall Street Journal* last May, "We're in contact with many zoologists around the world." Has Scaramucci suddenly discovered a new philanthropic sideline for the hedge fund crowd? Hardly. The lizard and duck in question are his light-hearted references to the ubiquitous mascots seen in insurance ads. But the larger and more serious reference is to the Securities and Exchange Commission's action last year ending the longstanding prohibition on hedge fund advertising. Freed from those constraints, Scaramucci is prepared to expand his pitch to a larger audience, saying he aims to "hit every medium that I can possibly hit." (In relaxing its rules, the SEC maintained traditional thresholds for potential hedge fund investors: an annual income of $200,000 and a net worth of at least $1 million, excluding primary residence.)

A lot of other less well-known hedge fund managers hold the same ambitions. In assessing the market, **Citigroup** figures retail-focused, liquid alternative assets in the U.S. could nearly triple to $770 billion by 2017. Existing hedge fund managers seeking new investors are expected to drive much of that growth. But traditional fund managers will also play an important role as they seek more profitable investment vehicles to compensate for the growth of lower-margin index and exchange traded funds. In 2013, for example, **Fidelity Investments** opened up the **Blackstone Alternative Multi-Manager** fund of hedge funds for sale to mass affluent investors via its Portfolio Advisory Service platform. **Pimco** also indicated last year that it planned to expand its alternatives business with retail investors in mind.

As hedge funds continue the evolution that has seen them expand from an investment vehicle for the wealthy to a core holding for institutions to a component in the portfolios of mass affluent investors, the industry registered 19 deals last year, broadly in line with recent trends. SkyBridge Capital was itself in the marketplace, as it cut a "strategic partnership" with **Woori Investment & Securities** of South Korea for the distribution of SkyBridge products in that country and elsewhere in Asia. Woori, part of giant **Woori Financial Group**, will also invest in one of SkyBridge's fund of funds. SkyBridge said the deal "underscores our commitment to provide alpha-centric hedge fund solutions to a broad, global investor base."

Hedge Fund/Hedge Fund of Funds Transactions

	2009	2010	2011	2012	2013
Number of Transactions	10	20	14	23	**19**
Combined Value ($M)	$201	$2,792	$873	$892	**$755**
Total Seller AUM ($B)	$19.7	$125.0	$42.9	$60.5	**$71.1**
Average Deal Size ($M)	$20	$140	$62	$39	**$40**
Average Seller AUM ($B)	$2.0	$6.3	$3.1	$2.6	**$3.7**

Source: Berkshire Capital Securities LLC

But **Neuberger Berman** was the most active player, as it took minority stakes in five hedge funds through its specialized **Dyal Capital Partners** private equity fund. The creation of Dyal mirrors a trend among alternative and traditional investors seeking stakes in hedge funds as a hook into the attractive fees the manager's charge, as well as the industry's growth. After raising $1.3 billion from 40 institutional clients over a two-year period, Dyal made three rapid-fire investments in December 2012 in pursuit of its goal of creating a portfolio comprising 12 to 15 institutional firms diversified by geography and strategy.

The largest deal last year by AUM involved the 20% stake Dyal took in **Halcyon Asset Management**, a New York-based multi-strategy firm with $13 billion in assets, about evenly split between hedge funds and bank loan strategies. Halcyon's hedge funds pursue merger, credit and special situation investments. The firm, established in 1981, registered around 30% growth in AUM between 2011 and 2013. A second deal involved **MKP Capital Management**, an 18-year-old specialist in global macro and credit strategies with $7 billion in AUM and a recent track record for rapid growth. Majority owner Patrick McMahon told *Pensions & Investments* the deal provides him with the opportunity to pare down his stake in the firm and use some of the proceeds to facilitate an increase in equity among partners. The three other firms, all U.S.-based, had aggregate AUM of more than $8 billion and included **Capstone Investment Advisors**, which specializes in volatility arbitrage strategies; **Scopia Fund Management**, a long/short equity investor; and **Waterfall Asset Management**, a structured credit and whole loans strategist.

Dyal reportedly paid $60 million for its 20% stake in Capstone (AUM: $2.4 billion), noted for its flagship **Capstone Vol** fund. In a 2010 interview with Risk.net, Capstone founder and CEO Paul Britton said the firm's trading model plays off a mix of intuition and algorithms. "The human element of trading is incredibly important, but it is not everything," said Britton, who began his career as a bond options trader on the London International Financial Futures and Options Exchange. "Quantitative techniques help traders to make better decisions, while good information technology is needed to effectively execute those ideas." Neuberger split from parent Lehman Brothers in 2009 to become an independent company. As of the first quarter of 2013, it was 72% employee-owned, with the goal of having 100% employee ownership within four years.

London hedge fund giant **Man Group** made a small €1.6 million ($2.1 million) investment for a 20% stake in **OFI MGA**, the alternative investment subsidiary of Paris-based asset manager **OFI Group**. Man has the option to take a majority shareholding within three years. The investment is part of a larger strategic partnership that will see OFI MGA take part in Man's managed account platform, which has $9 billion invested with some 80 alternative asset managers. OFI MGA manages more than €600 million for French institutions while OFI Group has €54 billion ($72 billion) in AUM. The deal allows Man to "provide investment solutions tailored to French institutional investors' needs." Last year, Emmanuel Roman took over as Man's new chief executive following years of diminished performance at the company. In particular, Man's flagship quantitative fund, **AHL**, has seen assets

Neuberger Berman was the most active player, as it took minority stakes in five hedge funds through its specialized Dyal Capital Partners private equity fund.

drop by more than half from a peak of $25 billion in 2011. In response, the company has launched a reorganization of the AHL unit that includes new quant funds and new hires. In October, with AHL's performance continuing to deteriorate, Man also announced a $90 million restructuring charge.

Another alternatives marquee name, **KKR & Co.**, acquired 24.9% of hedge fund **Nephilia Capital** (AUM: $8 billion), a specialist in reinsurance investments related to natural catastrophe and weather risks. For investors, Nephilia's products have particular appeal as uncorrelated assets. KKR and Nephilia have a relationship dating back 15 years, when Nephilia was part of a KKR portfolio company. KKR acquired part of the stake from Man Group, which purchased 25% of Nephilia in 2008. The Bermuda-based company said KKR's "global network of relationships, infrastructure and management expertise will open up new doors for Nephilia and our investors." The deal represents the second investment KKR has made in as many years in a hedge fund and expands its portfolio of such products. In 2012, the firm acquired **Prisma Capital Partners**, providing it with entry to the fund of hedge funds sector. In its latest full year of 2012, KKR's Public Markets unit, made up mostly of hedge funds and fund of funds, had $26.4 billion in AUM, double the amount in 2008 and representing one-third of total AUM.

Texas private equity giant **TPG** acquired a "significant stake" in several defunct **Octavian Advisors** hedge funds and will serve as general partner and investment manager. Octavian, a New York-based global distressed and activist investor, announced in the last quarter of 2012 that it was shutting down due to underperformance. In a letter to investors at the time, Octavian chairman and CEO Richard Hurowitz bemoaned a "market that is driven almost entirely by macroeconomic and political decision-making in the short and intermediate term" in which "'events' have become more and more difficult to effectuate and analyze." TPG's deal was done through **TPG Special Situations Partners**, a $6 billion opportunistic credit and special situations platform.

Carlyle Group joined the private equity buyers, acquiring Toronto fund of funds manager **Diversified Global Asset Management** for $33 million, with an additional payout of $70 million possible based on performance. DGAM, an institutional firm founded in 2004, has been growing rapidly, doubling assets under management and advice over the past three years to $6.7 billion. Carlyle said DGAM will serve as its fund of hedge funds platform and complements its private equity and real estate fund of funds capabilities. "We are focused on providing fund investors with a broad suite of investment options under one roof," Carlyle said. Last year, Carlyle also acquired real estate fund of funds manager **Metropolitan Real Estate Equity Management** *(see Real Estate)* and added to its holding in private equity fund of funds firm **AlpInvest Partners** *(see below)*.

Franklin Resources purchased the 80% of hedge fund **Pelagos Capital Management** that it did not already own, saying it made the move "after seeing growing interest from investors" in alternatives. The company acquired its original 20% stake in the Boston firm in 2010. Formed in 2005, Pelagos pursues investments in commodities and managed futures, and also has a hedge fund replication strategy. Pelagos' strategies have already been available to Franklin's customers as underlying investments in Franklin-branded products, such as the **Franklin Templeton Multi-Asset Real Return Fund**. The deal builds on Franklin's 2012 acquisition of **K2 Advisors Holdings**, at the time a top-20 fund of hedge funds manager.

Mariner Investment Group of New York, owned by Japan's **Orix Corp.**, extended its hedge fund business with the acquisition of **Concordia Advisors** (AUM: $1 billion), a 20-year-old relative value investor in interest rates, credit and equities that manages several commingled funds and separate accounts. Last year, Mariner also launched the **Mariner Incubation Fund**, a multi-strategy fund that will be managed by a variety of established hedge fund managers and gives Mariner "a new, efficient structure for incubating new managers." Mariner has more than $10 billion in AUM in single and multi-strategy hedge funds, fund of funds and other alternatives. When Orix acquired the firm in 2010, it set a goal of doubling AUM to $20 billion within five years. Last year, Orix acquired the **Robeco** asset management unit of **Rabobank** *(see Cross Border)*.

The acquisitive and ambitious Canadian asset manager **Fiera Capital Corp.** bought absolute return hedge funds with C$570 million ($580 million) in AUM managed by Toronto-based **GMP Investment Management**. Fiera paid C$10.8 million, and will tack on the equivalent of 25% of performance fees based on the acquired assets over a three-year period. The investment teams from GMP will join Fiera as part of the deal, operating in a new subsidiary that Fiera created to manage the funds. Fiera said the deal expands its alternative strategies, "an investment area that has been experiencing significant momentum over the past few years in the North American marketplace." Last year, Fiera also acquired two U.S. wealth managers *(see Wealth Management)*.

Principal Financial, an active acquirer of boutiques, stepped into the alternatives universe last year to take a 55% stake in **Liongate Capital Management**, a London- and New York-based fund of hedge funds manager with $2.1 billion in AUM. The deal marked the Iowa insurer's first purchase of a fund of funds manager. Liongate said the relationship with Principal will extend its footprint and distribution network while providing support for product development. The 9-year-old firm favors mid-size and niche managers and is generally more active than competitors in switching managers based on changes in markets and economies. But like many fund of funds managers, Liongate has experienced a drop in AUM in recent years, as investors broadly question the industry's value proposition. In 2011, the firm opened a New York office as part of a bid to attract more U.S. institutions. Principal's AUM has climbed from $247 billion to more than $450 billion since 2008.

The consolidating fund of funds industry registered one other small transatlantic deal, as **Morgan Creek Capital Management** of North Carolina acquired London's **Signet Capital Management**, a fixed income specialist with $700 million in AUM. Morgan Creek (AUM: $6.5 billion) called the transaction "a major achievement" in its effort to expand globally "and address the increasingly complex global investment environment." The 10-year-old firm, founded by the former chief investment officer for the University of North Carolina, Mark Yusko, says it "embraces the Endowment Model" of investing focused on asset allocation as the "primary driver of return." Morgan Creek manages traditional equity and fixed income investments as well as alternatives, including hedge funds. In the third quarter, the institutional firm introduced a hedge fund for retail investors, **Morgan Creek Tactical Allocation**.

In a U.S. fund of funds deal, **RCS Capital Corp.** acquired 10-year-old **Hatteras Funds Group** (AUM: $2 billion), an early entrant in the liquid alternatives market. In an interview with WealthManagement.com, RCAP executive chairman and noted real estate investor Nicholas Schorsch said, "By adding our scale and their fund track record and quality, we are going to be able to really help them grow this platform exponentially." (Separately, Schorsch will pay $11.2 billion for **Cole Real Estate Investments** via his **American Realty Capital Properties**, thereby expanding significantly his real estate investment trust portfolio.) Hatteras distributes a diverse group of retail fund of funds through financial advisors. RCAP, which began trading on the New York Stock Exchange last June, is particularly focused on the mass affluent market. The firm also said the deal constituted the "deployment of a majority of the proceeds" from its $50 million initial public offering. Hatteras adds a new line to RCAP's existing businesses, which include a wholesale broker-dealer; an investment banking and capital markets unit; a transaction management services provider; and a transfer agent.

The private equity industry logged a solid year as it continues to place more distance between itself and the damages wrought by the financial crisis. Mergers and acquisitions involving private equity firms rose 16% to $246 billion year over year in the first three quarters of 2013, according to Thomson Reuters, accounting for 14% of global deals. Global fundraising jumped 20% during the same period to $311 billion, according to Preqin, although the number of funds closed in the third quarter dropped to the lowest level in six years, suggesting that investors are "increasingly looking to place more capital with larger and more established managers." Accordingly, Carlyle raised $6.9 billion in the second quarter, calling that pace the strongest since 2008, while KKR raised $6 billion for its second Asian buyout fund and delivered a 60% increase in profits in the third quarter. Private equity companies worldwide have also been capitalizing on low interest rates to refinance debt at record levels at their affiliated companies ($110 billion as of mid-September, according to S&P Capital IQ). At the same time, the industry retains a significant level of capital in search of worthy investments, with Preqin placing that "dry powder" number at $789 billion as of November.

Within the industry, there were a number of important deals last year, as financial firms continued to respond to new regulations by divesting their private equity arms. The biggest news came out of Europe, where French insurer **AXA** spun off its $31 billion private equity unit as part of a management buyout. The buyout group was led by CEO Dominique Senequier, who helped

Private Equity Fund Transactions

	2009	2010	2011	2012	2013
Number of Transactions	6	12	5	9	**9**
Combined Value ($M)	$871	$2,403	$464	$575	**$834**
Total Seller AUM ($B)	$3.6	$54.5	$65.8	$31.6	**$55.4**
Average Deal Size ($M)	$145	$200	$93	$64	**$93**
Average Seller AUM ($M)	$594	$4,543	$13,158	$3,511	**$6,158**

Source: Berkshire Capital Securities LLC found and drive **AXA Private Equity** into one of the Continent's largest private equity firms. In recent years, AXA Private Equity has also been picking up assets in the secondaries market, including from other financial services firms engaged in restructuring. In 2011, for example, the company acquired $2.4 billion in private equity portfolios from **Barclays** and Citigroup while taking a majority stake in the $840 million portfolio of **HSH Nordbank**.

Additional buyout investors included other senior managers, institutions and French family offices. AXA retained a 27% share, with AXA Private Equity

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management taking 40% and outside investors 33%. The transaction valued the firm at €510 million ($680 million), with AXA receiving total consideration of nearly €488 million, of which up to 30% will be in deferred consideration subject to meeting certain targets and conditions. Senequier said the new structure will "keep entrepreneurialism at the heart of what we do and build a platform for new opportunities and broader horizons." AXA said it will continue to invest in the newly independent firm's funds, with an expected total commitment of €4.8 billion ($6.6 billion) between 2014 and 2018. AXA Private Equity was subsequently rebranded as **Ardian**.

Another major European firm, **Credit Suisse**, divested two private equity units as it continues to adjust its business model. In the larger of the deals, **Grosvenor Capital Management** of Chicago acquired Credit Suisse's **Customized Fund Investment Group**, with $18 billion in AUM in third-party funds and 11 global offices. The group was subsequently rebranded under the Grosvenor name. For Grosvenor, the deal adds significant scale while extending its platform beyond hedge funds for its institutional clientele. One of the largest fund of hedge funds managers, Grosvenor had $23 billion in AUM prior to the deal, with nearly two-thirds in customized portfolios. Analysts speculate that the deal might also set the stage for a larger and more diversified Grosvenor to go public.

Grosvenor, which is 30% owned by asset manager investor **Hellman & Friedman**, struck a second deal creating a "strategic partnership" with **Continuum Investment Management**, a structured fixed income investor. The partnership includes $85 million in seed capital, part of Grosvenor's fledgling "Emerging Manager" program. In the second Credit Suisse deal, **Blackstone** acquired the firm's **Strategic Partners** unit, with $9 billion in secondary private equity funds. Separately, Credit Suisse divested two other businesses and acquired a **Morgan Stanley** wealth business *(see Cross Border and Wealth)*.

Carlyle acquired the remaining 40% in equity it did not already own in Dutch private equity fund of funds firm AlpInvest Partners (AUM: €37 billion/$48 billion). Carlyle will use shares as the primary currency in the deal, valued at around $88 million. In 2011, Carlyle made its initial investment in AlpInvest as part of an effort to broaden its investor base and product mix. In the U.K., **Aberdeen Asset Management** paid £17.5 million ($24 million) for a 50.1% stake in fund of funds manager **SVG Advisers**. The company said the transaction is consistent with its "strategy of acquiring smaller business to enhance and accelerate the Group's own organic growth." SVGA, which was part of **SVG Capital**, a publicly traded London-based private equity firm, adds £4 billion ($5.4 billion) in assets under management and advice to Aberdeen's small existing private equity business. Aberdeen has the option to acquire the rest of the business after three years for a price between £20 million and £35 million. Last year, Aberdeen also acquired **Scottish Widows Investment Partnership** and **Artio Global Investors**, a New York fixed income manager *(see Money Management)*.

In an all-U.S. deal involving two private equity emerging markets specialists, **Rohatyn Group** and **Citi Venture Capital International** combined to create what they called "a premier emerging markets asset management company." The company will operate under the Rohatyn name with $7 billion in AUM and 18 offices worldwide. CVCI, with $4.3 billion in equity investments and committed capital, was part of Citigroup, which has divested nearly all of its alternative businesses. In a second U.S. transaction, property and casualty investment holding company **Alleghany Corp.** paid $250 million for a 6.25% stake in **Ares Management** and committed up to $1 billion more in investment capital, all part of a bid "to participate in Ares' strong business prospects and to enhance the returns of its committed capital through Ares' alternative asset expertise." Ares has $66 billion in committed capital under management. For Alleghany, the deal provides some diversification away from its property and casualty concentration. **Abu Dhabi Investment Authority** also holds a minority stake in Ares.

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