Berkshire Capital | NEWSLETTER | 2nd-Quarter 2010

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Happy Days?

On October 29, 1929, as the New York Stock Exchange lapsed into the panicky free fall ultimately dubbed "Black Tuesday," Midwestern band leader Glen Gray and his swinging Casa Loma Orchestra entered the Okeh Records studio in Manhattan's Union Square. There, they recorded "Happy Days Are Here Again," a lighthearted ditty that came to symbolize the national yearning for renewal during the Depression. For much of the first half of 2010, nearly three years after the start of the worst financial meltdown since that "Great Crash," happier if cautious days appeared to be settling in again.

Of particular importance, the financial sector began sounding a more optimistic note. **Citigroup**, reporting net income of $4.4 billion during the first quarter, said that it had finally "turned the corner." In announcing $3.2 billion in earnings, **Bank of America** declared that "the worst of the crisis is clearly behind us." **Morgan Stanley**'s results ($1.4 billion in net income) beat analysts estimates. **JPMorgan Chase** delivered a 55% increase in profits to $3.3 billion. Even the government-owned **American International Group** (AIG) had a good quarter, recording earnings of $1.5 billion.

Meanwhile, from the heartland, General Motors delivered snappy 60-second TV ads featuring Chairman and CEO Edward Whitacre, Jr., announcing the repayment of $8.4 billion it owed the American and Canadian governments, "with interest, five years ahead of the original schedule." Two years after it ceased trading and appeared possibly headed for the corporate scrapyard, the 101-year-old automaker is making plans to go public again.

Then, in the second quarter, just as harried officials and bankers had gained a measure of confidence filling one gaping hole in a fragile global financial dyke, another emerged in Greece, whose government was forced to confront the sort of fiscal nightmare that keeps policymakers and observers awake at night in much of the industrialized world. After some debate, the EU stepped in with a trillion-dollar rescue package designed to buck up Greece, as well as Portugal and Spain.

Amid at times violent protests, the Greek government announced a number of austerity measures that underline the impact of the financial crisis on the standard of living for much of the population in Europe and the U.S. Soon after, Spain, facing its own fiscal challenges — not to mention a 20% unemployment rate — announced cuts in public sector paychecks, benefits and investment, with Portugal following behind. "Spain, long protesting that it does not deserve to be put in the same category as Greece," editorialized the Financial Times, "has finally realised that this is a distinction markets, not politicians, get to draw."

For investors, the news from Europe reversed the tide of good feeling that lifted stocks during a strong first quarter, along with the fortunes of asset managers. In the U.S., **Affiliated Managers Group** recorded a 35% increase in cash net income in the first quarter of 2010 compared with the year-earlier period. In its fourth fiscal quarter ending in March, **Legg Mason** beat analysts estimates as it reversed a year-earlier loss to generate $64 million in net income. In its second fiscal quarter ending March, **Franklin Resources** announced that net income had more than tripled.

Calamos Asset Management, one of the smaller publicly traded equity managers (AUM: $33 billion), saw its operating income more than double and its operating margin jump nearly 16 points to 38%. **BlackRock**, the world's largest asset manager with $3.4 trillion in AUM following last year's acquisition of **Barclays Global Investors**, saw its net income jump 404% in the first quarter

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over the year-earlier period, though investors had been hoping for even stronger earnings and attributed the lower-than-expected results to the investor switch to less profitable passive investment products.

As markets swooned in the second quarter, however, analysts questioned whether the industry could sustain such strong earnings growth, with Goldman Sachs in late May downgrading its view on publicly traded asset managers from “attractive” to “neutral.” Goldman cited “increased market volatility amid macro concerns” as factors that “should lead to a round of negative earnings revisions” driven by declines in AUM and a shift toward less profitable investments.

After an active second half of 2009, asset management dealmakers in the first half of 2010 returned to the pattern at work during the year-earlier period, appearing generally content to sit on the sidelines. There were a few notable exceptions, in particular **Man Group**, which accounted for the sole billion-dollar-plus deal. In a bid to re-energize its once-flourishing business, the London-based hedge fund manager paid $1.6 billion in cash and shares for **GLG Partners** of New York. The hedge fund sector, which beat a hasty retreat in 2009 following three strong years for deals, recorded several other transactions of note. **Goldman Sachs** returned to the market for the first time in two years, taking a minority share in **Level Global Investors LP** (AUM: $4 billion) through its 3-year-old **Petershill** hedge fund investment vehicle. In continental Europe, major hedge fund investors included **AXA Investment Managers** and **Gottex Fund Management** of Switzerland, while two U.K. buyers, **F&C Asset Management** and **Aberdeen Asset Management**, acquired hedge fund assets as part of the larger fund deals.

The second largest asset management deal also took place in the alternatives industry, as Affiliated Managers Group entered a humbled private equity industry to pay $775 million for London-based fund of funds manager **Pantheon Ventures**. Massachusetts-based **AMG**, which has made three international asset management investments in less than a year, also took a majority stake in a London equity fund manager, **Artemis Investment Management**. **Religare Enterprises**, an emerging aggressive player from India that last year made a joint bid for AIG’s external asset management business, bought a majority stake in San Francisco private equity fund of funds manager **Northgate Capital** (AUM: $3 billion).

Another emerging player catering to well-heeled clients from Asia and the Middle East, **BMB Group**, announced it will make an investment of $500 million in Dutch real estate advisor **Alliance Capital Group** (AUM: $3.7 billion), gaining an undisclosed stake in return. One of the founders of the 6-year-old BMB, an alternative asset manager based in the Cayman Islands, is Brunei Prince Abdul ‘Ali Yil-Kabier. The real estate advisory sector registered at least a half-dozen deals in the first half, with much of the activity outside the U.S., where buyers included **ING Groep** and **Charter Hall Group** of Australia. In the U.S., Andrew Farkas, who made his name and fortune in real estate in the 1990s buying distressed real estate limited partnerships, made a wager he could pull off the same alchemy in the commercial-mortgage-backed securities (CMBS) market, as his newly formed **Island Capital Group** acquired **Centerline Holding Co**.

There was continuing demand for companies with credit products, as buyers sought greater scale in that consolidating arena. **Blackstone Group** followed up on its major acquisition two years ago of credit giant **GSO Capital Partners** to buy $3.2 billion worth of collateralized debt obligation (CDOs) and collateralized loan obligation (CLOs) funds managed by **Callidus Capital Management**. Blackstone was joined by a second private equity heavyweight, **Carlyle Group**, which acquired $5.1 billion in CLO funds managed by **Stanfield Capital Partners**. Another alternatives firm, **Fortress Investments**, acquired the management rights to $6 billion in CDOs carrying the **Taberna** brand name, as well as **Logan Circle Partners**, a fixed income institutional manager.

In a quiet wealth sector, the biggest player to cut a deal was **BNY Mellon**, which made its first wealth acquisition north of the border, of **I-3 Advisors** of Toronto. In the European wealth market, a major transaction saw **Investec** of South Africa pay $600 million for the 53% of London’s **Rensburg Sheppards** (AUM: $18 billion) it did not already own. New York investment bank **Evercore Partners**, which is aiming to more than triple its AUM to $5 billion within five years, made two U.S. acquisitions in the first half, including a small wealth firm, **Morse, Williams & Co.**, and an institutional manager, **Atalanta Sosnoff Capital**. **Aviva Investors**, created in 2008 by British insurance giant **Aviva**, crossed the Atlantic to make its first acquisition, of value investor **River Road Asset Management** (AUM: $3.6 billion).

Wealth Management

In line with the economic tides, one of the prevailing themes in the sector during a quiet first half for dealmakers was an emphasis on organic expansion in Asia. In a report on the private banking industry released in April, Booz & Company projects that Asia-Pacific will become the world’s leading wealth market by 2011, containing one-third of the individuals worldwide with $1 million or more in investible assets. That status is being built on a projected 31% increase in the number of millionaires in the region between 2008 and 2011. Boston Consulting Group estimates that among millionaires in 2009, Asia excluding Japan recorded the highest percentage growth in AUM (22%).

In May, **Deutsche Bank** told Reuters it plans to double AUM in its Asian wealth business over the next three years to $70 billion, while **ABN Amro** said it expects 15% to 20% growth this year in client assets in the region. In the first quarter, Douglas Wurth, the chief of **JPMorgan Chase**’s international private banking business, shifted his perch from New York to Hong Kong, which he told the *South China Morning Post* was the “window to the future of growth.” Wurth has been charged with doubling the bank’s Asian business over the next three years.

New York rival **Morgan Stanley** said it will double the number of private bankers it employs in the region over the next three years. In a continuation of recent efforts to bolster its senior management team in Asia, **Barclays Wealth** poached a seasoned **UBS** executive to be its chief

risk officer for Asia-Pacific and said it intends to quadruple client assets and triple headcount by 2015. **RBS Coutts** said it plans to increase headcount in Asia by 50% by 2013, while Singapore-based **DBS Group** announced it would hire hundreds of new employees for its private bank. Among Swiss private banks, **Bank Sarasin**, **Clariden Leu**, **Julius Baer** and **Reyl & Cie** either opened offices or expanded their presence in Singapore, a center for Asian private banking.

Asia-Pacific's historic momentum was underlined last year by the pricing on **ING Groep**'s sale of two of its private banking operations, as its Asian business (acquired by **Oversea-Chinese Banking Corp**.) was valued at twice the level of its Swiss business (acquired by **Julius Baer**), by AUM. In the first quarter, OCBC wrapped ING Asia Private Bank Ltd. into its newly formed **Bank of Singapore** private banking subsidiary.

The activity and opportunity notwithstanding, deal opportunities remain limited in Asia, which lacks the large number of independent wealth managers operating in the developed markets of North America and Europe. Deals were limited in the first half in general, as the sector reverted to the pattern at work during a skittish first half of 2009. As in that year-earlier period, transactions were also limited in scope, though there were two notable cross border deals in Europe.

South Africa's **Investec** paid $600 million for the 53% of London's **Rensburg Sheppards** that it did not already own, while **Commerzbank** continued to sell off its private banking business, in line with the bailout agreement reached with the German government. In January, Commerzbank added **Dresdner Bank Monaco** to a list of six private banking divestitures it made in 2009. The buyer, **Bank Audi sal - Audi Saradar Group**, is Lebanon's largest bank but also has offices in Switzerland and France. (See "Europe" section for more details on the Investec transaction.)

In a third cross border deal involving a European seller, Paris-based **BNP Paribas** sold its Panamanian wealth business to **Scotiabank Group** of Canada, including operations in the Grand Cayman and Bahamas. BNP has been under pressure from the French government to quit non-transparent offshore markets. Scotiabank, which plans to launch a wealth management center in Panama this year, called the deal "a great fit with [its] international wealth management growth strategy in the Caribbean and Latin American regions." Within its international banking business, the Caribbean and Central America represent Scotiabank's largest market, accounting for 41% of revenues. Two years ago, Scotiabank invested in a Peruvian pension fund, **Profuturo**.

In North America, there was one notable cross border deal, as **BNY Mellon** made its first acquisition of a Canadian wealth manager, **I-3 Advisors** of Toronto, enhancing its existing presence in that market. Established by Ernst & Young in 2005, I-3 has $3.4 billion in AUM. I-3 CEO June Ntazinda, who will remain in her post, said BNY Mellon will help "fuel the next phase of the firm's growth." In the U.S., there were several acquisitions of independent managers. The largest (by AUM) was the management buyout of Pennsylvania-based **Cornerstone Companies** from parent **Harleysville National Corp.**, a bank located near Philadelphia. The sale took place just prior to the completion of **First Niagara Financial Group**'s takeover of HNC, first announced in July 2009.

Founded 35 years ago, Cornerstone (AUM: $2.8 billion) was acquired in 2006 by HNC as the bank sought to expand its wealth business. The company, with offices in Allentown and Bethlehem, targets individuals and families with a minimum of $5 million to invest, in addition to institutions. HNC retained its **Millennium Wealth Management** unit. Other U.S. deals involved firms with only a few hundred million dollars in AUM. **Evercore Wealth Management** acquired New York's **Morse, Williams & Co.**, a specialist in growth stocks and fixed income with $190 million in AUM. Evercore also completed a related acquisition of the $12 million **Wall Street Fund**, a growth fund managed by Morse, Williams CEO Robert Morse.

Since being established in 2008 by investment bank **Evercore Partners**, Evercore Wealth has accumulated $1.5 billion in AUM. The company is led by former **U.S. Trust** chairman and CEO Jeff Maurer, who has set a goal of reaching $5 billion in AUM within five years. Evercore Partners also took a stake in an institutional firm, **Atalanta Sosnoff Capital** (see "Mutual Funds/Institutional"). **StanCorp Financial Group** of Portland, Ore., which targets the "mass affluent" market, made two small acquisitions of Indianapolis-based firms that drove AUM in its **StanCorp Investment Advisers** division above $1 billion. The larger one involved **Redwood Investment Advisers**, which targets the physician market, with the second one of **Webb Financial Advisers**. Publicly traded StanCorp Financial also provides insurance services, accounting for 90% of revenue.

Sanders Morris Harris Group returned to the marketplace after an absence of a couple of years, paying $1 million for 51% of a small California wealth manager, **Investor Financial Solutions** (AUM: $110 million). Based in Houston, SMH focuses on the mass affluent and high net worth marketplaces and has $12 billion in AUM, including $5 billion at majority-owned **Edelman Financial Services**. In its latest 10-K filing, SMH notes the "attractive acquisition opportunities" that exist, "particularly among smaller, specialized regional financial services companies that want to affiliate with a larger company while still retaining their identity and entrepreneurial culture."

Forum Financial Management of Virginia and Illinois and **Pinnacle Wealth Management** of suburban Chicago merged to create a wealth manager with more than $500 million in AUM, with the new firm assuming the Forum name. The two firms had a prior relationship, with Forum founding partner telling Investment News the deal provided his firm with a succession plan. In another transaction involving two companies with previous ties, **Geneos Wealth Management** of Denver acquired Kansas City-based **Integrated Wealth Advisory Services**, which will join Geneos' **G5 Financial Group**. Integrated manages $140 million in assets for individuals and small businesses in 16 states.

Mutual Funds/Institutional

In the first four months of the year, investors in the U.S. continued to be cautious buyers of equity mutual funds, which generated net new inflows of just $41 billion, about

one-third the amount registered by bond funds, according to the Investment Company Institute. Indeed, given the tilt toward bond funds and exchange traded funds (ETFs), the *Wall Street Journal* asked earlier in the year whether 2009 will turn out to be a "watershed year" that sees those two fund classes ascendant while the demand for actively managed equity funds diminishes. Many observers believe the stock market meltdown of 2008 only accelerated a trend that demographics would have dictated, as an aging baby boom generation begins to reassess its risk tolerance.

Whether by coincidence or trend, in the mutual fund/institutional sector there was a decided tilt during the first half of 2010 among buyers toward fixed income shops or other players outside the active equity space. In one of the larger deals, **Fortress Investment Group** acquired **Logan Circle Partners**, a Philadelphia-based fixed income institutional manager. A hedge fund and private equity player, Fortress touted the deal as a "unique opportunity to diversify and expand [its] investment management business" to offer fixed income products to its global investors. Logan Circle adds more than $11 billion in AUM to the $30 billion Fortress manages in private equity and hedge funds, and is the first deal done under new CEO Daniel Mudd, the former chief of **Fannie Mae**. The company paid $21 million in cash, with additional performance-based payments possible in 2011.

Logan was formed in 2007 as a joint venture between employees and **Guggenheim Partners** and was built on the acquisition from **Delaware Investments** of a team of fixed income managers, traders and marketers and $13 billion in AUM. (Delaware was itself acquired last year by **Macquarie Group**.) Although Logan Circle founder (and former Delaware CEO) Jude Driscoll had aggressive plans for the new firm, AUM has actually declined since its formation. That, combined with the expansion of Guggenheim's internal institutional and fixed income businesses, made Guggenheim's stake in Logan unnecessary, observers believe. Fortress has experienced its own challenges since going public in 2007, as volatile markets have impacted performance and its share price. In the first quarter, the company lost $84 million, though a recovery in its funds did boost incentive income and AUM.

Guggenheim Partners was also in the market as a buyer, scooping up **Security Benefit Corp.**, a provider of retirement products and services, mutual funds and ETFs. Guggenheim was joined by a "group of investors," including Guggenheim shareholders. Last year, New York-based Guggenheim also picked up a retail-oriented ETF provider, **Claymore Group**, as part of an effort to expand its retail client base and into ETFs. Although complete terms of the transaction were not divulged, the Guggenheim-led group said it will invest $400 million in Security Benefit. Todd Boehly, a managing partner at Guggenheim, said the company is "committed to expanding its presence as a global diversified financial services firm that provides fresh perspectives and innovative solutions."

In acquiring Security Benefit, Guggenheim also takes control of **SGI/Security Global Investors** and **Rydex/SGI** (AUM: $22 billion), a retail and institutional business that offers traditional and alternative investments in separate accounts, mutuals funds and ETFs. A onetime insurance company, Kansas-based Security Benefit focuses on retirement products and services and acquired Rydex Investments in 2007 to extend its product line into retail-based alternatives and ETFs.

There were several deals involving credit products, including a second acquisition by Fortress Investment, which bought the management rights to eight collateralized debt obligations (CDOs) operating under the **Taberna** brand name, with nearly $6 billion in AUM. The deal was concluded with **RAIT Financial Trust** of Philadelphia, which is focusing on its commercial real estate business. A second transaction involved another alternative asset manager, **Blackstone Group**, which acquired collateral management agreements for all nine CDO and collateralized loan obligation (CLOs) funds managed by **Callidus Capital Management**, part of **Allied Capital Corp**. The funds hold $3.2 billion in assets.

The acquisition comes two years after Blackstone paid $635 million upfront for **GSO Capital Partners**, which manages a variety of funds in the leveraged finance marketplace and provided Blackstone with one of the largest credit platforms in the alternative investment industry. The Callidus funds will be wrapped into the GSO unit, which said the deal "represents the execution of one of our key strategic initiatives to further scale our CLO franchise and capitalize on the strength of our investment process and infrastructure." GSO had $24 billion in AUM prior to the deal. The sale took place just before the completion of the takeover of Allied Capital by **Ares Capital**, a specialty finance company.

Another private equity firm, **Carlyle Group**, acquired the collateral management contracts for 11 CLO funds managed by **Stanfield Capital Partners**, along with the investment management agreements for three of Stanfield's separate accounts, amounting in total to $5.1 billion in AUM and giving Carlyle more than $18 billion in credit assets. "Scale is critical to the CLO business," said Mitch Petrick, Carlyle managing director. "With this purchase, Carlyle would become one of the world's largest structured credit managers and an industry consolidator." The CLO funds managed by Stanfield invest mainly in leveraged loans and high-yield bonds. In yet another indicator of the interest in credit-related instruments, **Deerfield Capital Corp.** paid $25 million (plus an additional $7.5 million over five years) for **Columbus Nova Credit Investment Management**, which has $1.8 billion in leveraged loan credit products.

In a transatlantic deal involving a traditional equity manager, **Aviva Investors** of the U.K. acquired Louisville-based **River Road Asset Management**, a 5-year-old value investor with $3.6 billion in assets managed for institutions. Alain Dromer, chief executive of Aviva Investors, said the addition of River Road's "equity expertise" complements the company's fixed income capabilities and "is a significant step in the development of our business in North America." The acquisition marks the first deal completed by Aviva Investors since its creation in 2008 by parent **Aviva**, the insurance giant. That same year, River Road bought out the minority interest of **Fortis**.

Evercore Partners paid $69 million for a 49% stake in **Atalanta Sosnoff Capital**, with a potential earnout payment

of $14.7 based on 2010 performance. Founded in 1981 and based in New York, Atalanta manages $10 billion in assets for institutions and high net worth clients and has a large-cap and balanced investment orientation. Evercore called the investment "consistent with our strategy of partnering with exceptional investment firms, which manage high value-added products and have significant equity ownership by management." Evercore also acquired a small New York wealth firm, **Morse, Williams & Co.** (see "Wealth").

In a tie-up between two independent Boston asset managers, **Congress Asset Management** acquired **Prelude Asset Management**, a 5-year-old institutional fixed income manager with $1.2 billion in AUM. Congress, with $5.2 billion in AUM prior to the deal, said Prelude "will significantly balance and complement our established equity and fixed income business by adding significant resources to the fixed income side." Congress, founded in 1985, manages assets for institutions and high net worth individuals.

Alternatives

The pressure from institutions on fees and the specter of greater regulation from governments in Europe and the U.S. notwithstanding, the hedge fund industry in the first quarter continued the comeback it began last year after a disastrous 2008, albeit tentatively. In the first quarter, the Hedge Fund Research index gained 2.6%, "bringing the industry within two percent of its previous high watermark" reached in October 2007, said HFR. AUM grew to $1.7 trillion on the strength of nearly $14 billion in new capital and another $54 billion in performance-based growth.

It is an uncertain recovery, however, as performance faltered in the second quarter, money continued to flow primarily to the largest firms, and investors proved near when it comes to seeding new firms. According to HFR's first-quarter data, firms with more than $5 billion in AUM enjoyed inflows of nearly $15 billion while those with less registered net outflows of $3.7 billion. Indeed, the largest deal in the first half — and in the asset management industry — involved one of the largest hedge funds, as **Man Group** paid $1.6 billion for **GLG Partners**. The cash-and-shares deal was priced at nearly seven times AUM and represented a 55% premium to GLG's closing price on the NYSE in mid-May. The acquisition price of $4.50 per share is still down from GLG's 2007 initial public offering price of $10.

The deal gives London-based Man Group $24 billion in AUM, bringing its total to $63 billion, and a complementary set of investment products, distribution networks and clients. For example, Man targets the "mass affluent" market, along with institutions, while GLG focuses on ultra high net worth investors and counts sovereign wealth funds among its institutional clients. Man has relied heavily on its quantitative investment manager, **Man AHL**, while GLG favors a less tech-driven "discretionary" investment style. GLG also manages $12 billion in long-only funds. Jon Asbitt, chairman of Man, said the deal is "central to Man's stated strategy of acquiring high-quality discretionary investment management capability to broaden our range of diversified, liquid strategies." Man said the addition of GLG would result in $50 million in cost savings by its 2012 financial year (ending March 2012) and would be earnings accretive that same year.

Both firms have endured sharp swings in performance of late, with GLG's AUM dropping nearly $10 billion in 2008 before recovering $7 billion last year to $22 billion, aided by the acquisition of **Societe Generale**'s long-only business in the U.K. GLG's earnings per share also declined by 70% between 2007 and 2009. Similarly, Man has seen its AUM drop in half between its 2008 and 2010 financial years and its earnings per share decline 72%. GLG executives are expected to gain $560 million in stock as a result of the deal.

In a second high-profile transaction, **SkyBridge Capital** of New York expanded its business by acquiring three hedge fund businesses from **Citigroup**'s Alternative Investments unit with a total of $4.2 billion in AUM. The business include fund of hedge funds as well as hedge fund seeding and advisory businesses. For SkyBridge, founded in 2005 by **Goldman Sachs** alumni, the deal extends its business model beyond providing seed capital for hedge funds. Prior to the Citigroup deal, the company had $1.4 billion in AUM through investments in seven funds. "It has been our belief for several years that the integration of a fund of hedge funds business is a natural fit with the SkyBridge platform," said Anthony Scaramucci, managing partner of SkyBridge, which followed up the deal by opening its first office in Europe. The sale continues Citigroup's effort to reorganize around its core businesses, although two months after the deal with SkyBridge, Bloomberg reported that the bank was attempting to raise $3.5 billion for hedge fund and private equity investments.

AXA Investment Managers in June bought out management's 25% stake in **AXA Rosenberg** following revelations that AXA Rosenberg senior investment officers waited months to reveal to the company's board a computer glitch in its risk program. Although the problem was ultimately remedied and its impact on fund performance is uncertain, the incident raised embarrassing oversight issues and led a number of institutional clients to quit the firm, including the Florida State Board of Administration. A "quant" firm based in California, AXA Rosenberg has $41 billion in AUM but has lost a third of its assets since the first quarter. AXA, which now owns 100% of AXA Rosenberg, was involved in two other deals in the alternative sector, acquiring $1.9 billion in private equity funds from **Bank of America** and another $720 million in private equity investments from French financial services firm **Natixis**.

The investment banks that just a couple of years ago were such important buyers of hedge funds are largely gone, but one of the survivors, Goldman Sachs, made its presence felt in the first half, when it took a minority share in the $4 billion **Level Global Investors LP** of New York, which bets on the direction of stock prices, often in the technology and financial sectors. The deal was done through Goldman's hedge fund acquisition vehicle, **Petershill** In an agreement between two U.K. firms, **Standard Life Investments** acquired 75% of a small fund of hedge funds manager **Aida Capital**, a deal that enhances Standard's alternative investment business, largely built on commercial property and private equity.

In another fund of funds deal, **Gottex Fund Management** of Switzerland acquired New York-based **Constellar Capital**, a small, global multi-strategy firm that manages three funds. Another transatlantic deal saw New York's **Sciens Capital Management** acquire Guernsey-based **Partners Group Fund Services**, which has $700 million in hedge fund managed accounts. "We aim to become the managed account service provider of choice to institutional investors," said Sciens, a diversified alternative asset manager with $6 billion in AUM. Two additional deals with a hedge fund element took place in the U.K. and involved **F&C Asset Management**'s acquisition of **Thames River Capital** and **Aberdeen Asset Management**'s purchase of the asset management business of **Royal Bank of Scotland** (see "Europe" for more information).

In one of the first half's largest transactions, **Affiliated Managers Group** paid $775 million for 85% of **Pantheon Ventures**, one of the world's largest private equity fund of funds managers, with $22 billion in AUM. For AMG, which could make an additional $225 million in performance-based payments over the next five years, Pantheon marks the largest acquisition in its 17-year history. Management at London-based Pantheon will retain 15% of the equity. The deal expands AMG's growing international business and provides the Boston-area company with entry to the private equity arena. With the acquisition this year of Pantheon and another U.K. firm, **Artemis Investment Management** (see "Europe"), global equity and alternative products account for nearly two-thirds of AMG's earnings.

Pantheon was formed in 1982 and acquired in 2004 by **Russell Investments**, the asset management arm of **Northwestern Mutual Life Insurance Co.** In explaining part of the benefit of the sale to AMG, Elly Livingstone, Pantheon's head of global secondaries, pointed to the opportunity to gain equity in the firm. "Businesses like ours ... need a system of devolving equity to the next generation and the next generation beyond that," he told Private Equity International. "That's very important — it gives the next generation something to shoot for." Russell, which shut its fund of hedge funds unit two years ago, has indicated it will focus instead on the research and consulting side of the alternatives business. Like the larger private equity industry, fund of funds companies have struggled of late, with fund-raising this year likely to finish far off the five-year low of $23 billion recorded in 2009.

Religare Enterprises, one of India's largest financial services companies, stepped into the international asset management marketplace for the second year in a row to pay $200 million for a majority stake in **Northgate Capital** (AUM: $3 billion), a private equity fund of funds firm based in San Francisco. Religare, which last year made an unsuccessful joint bid with **Macquarie Group** for **AIG**'s asset management business, has said it will spend up to $1 billion to build a U.S.-based global asset management company that it ultimately plans to take public.

Following a quiet 2008 and 2009, the real estate advisory sector displayed a great deal of vigor in the first half, with a mix of deals in Europe, Australia and the U.S. In the U.K., **ING UK Real Estate Income Trust** acquired **Rugby Estates Investment Trust**, a London firm with $111 million in AUM. The all-shares deal, valued at $87 million, provides ING with greater retail and commercial exposure in central London and Southeast England. In explaining the deal, ING pointed to a stabilization of the real estate market and said the company wanted to "take advantage" of emerging "acquisition opportunities." ING UK REIT is managed by **ING Real Estate Investment Management** (UK) Ltd., a member of the **ING Groep** and one of the U.K.'s leading property asset managers, with some $7.5 billion in AUM. Separately, there were reports that ING Groep was seeking to unload its global real estate business, with more than $92 billion in AUM, as the company continues to reorganize following its 2008 bailout from the Dutch government.

BMB Group, an aggressive alternative asset manager based in the Cayman Islands, will make a $500 million investment in Dutch real estate advisor **Alliance Capital Group** (AUM: $3.7 billion), gaining an undisclosed stake in return. Founded in 2004 by Brunei Prince Abdul 'Ali Yil-Kabier and Asian businessman Rayo Withanage, BMB manages money for institutions and ultra high net worth individuals from Asia and the oil-rich states of the Middle East. Alliance's investments include commercial properties in Germany, the Netherlands and other parts of Europe. Alliance said the deal will allow it to "leverage the capital and relationships of [BMB's] investors to develop our operations" and "consolidate an industry-leading position in these turbulent times." The new company will be renamed **BMB Alliance**.

In a deal that created one of Australia's largest specialist real estate fund managers, property fund manager **Charter Hall Group** paid $270 million for a majority of Macquarie Group's real estate management platform, more than tripling its AUM to $9 billion. As part of the transaction between the two Australian companies, Macquarie will gain a 10% stake in Charter Hall. The deal includes Macquarie's stakes in five real estate investment trusts (two listed and three unlisted) as well as management rights to the businesses. Macquarie — which last year made a series of global acquisitions of asset managers, advisors and investment banks, including Philadelphia's **Delaware Investments** — has been shifting away from its traditional business model, in which it acquires assets and then wraps them into specialty funds, largely focused on infrastructure.

There were two deals in the U.S., including **Trecap Partners**' acquisition of the real estate equity investment advisory business of **Capmark Investments**, comprising a $4.3 billion fund portfolio of multifamily and commercial properties in the U.S. and Europe. Trecap was formed in 2009 to provide real estate investment management and consulting services to institutions and high net high net worth advisors, while Capmark Investments was part of the **Capmark Financial Group**, a commercial real estate finance company that last year filed for Chapter 11. In the second transaction, **Island Capital Group** acquired **Centerline Holding Co.**, making the newly formed Island Capital one of the largest "special servicers" of commercial-mortgage-backed securities (CMBS) in the U.S., with $110 billion in loans. Island Capital was formed by New York real estate investor Andrew Farkas, who said his purchase of the CMBS fund management and loan servings businesses tracks the strategy he employed

successfully in the 1990s buying distressed real estate limited partnerships. Farkas will invest $100 million in new equity and assume $180 million of Centerline's debt as part of the deal.

Europe

The most significant transactions in Europe involved an American buyer, **Affiliated Managers Group**, which took majority stakes in two London-based firms: **Artemis Investment Management**, a U.K. fund manager with $16 billion in AUM; and **Pantheon Ventures**, a private equity fund of funds manager with $22 billion in AUM. For the latter deal, AMG paid $775 million in cash with the potential for incentive payments over the next five years (see "Alternatives"). In referring to the two deals, AMG'S bullish CEO Sean Healey told the Financial Times: "It's been a billion dollars spent in the first six weeks of 2010, and we see very substantial ongoing opportunities."

Founded in 1997, Artemis has an equity and retail orientation, although it also manages hedge funds and institutional money. Since 2002, when it acquired the U.K. fund business of **ABN Amro**, it has endured several relationships. ABN Amro with the Dutch bank was first to take a majority share in Artemis in return for the U.K. fund business. The 2008 megadeal by three banks for parts of ABN Amro brought new ownership from **Fortis Bank**, which was soon engulfed by the financial crisis and had to be bailed out by the Benelux governments. Last year, **BNP Paribas** became Artemis' latest owner, via its acquisition of Fortis. Artemis CEO Mark Tyndall said AMG's affiliate structure "will allow us to continue to attract and retain talented staff and resume the growth of the business." AMG, which sat on the sidelines for a year during the financial crisis, has cut five deals since the third quarter of 2009, including an investment last year in another international player, Hong Kong-based hedge fund **Value Partners Group**.

The U.K. was the center for European transactions in the first half, with the wealth sector registering one major deal, as South African financial services firm **Investec** paid $600 million for 53% of London's **Rensburg Sheppards**, a premium of 48% over Rensburg's closing price at the time of the offer in March. The two firms began a partnership in 2005, when Investec sold its Carr Sheppards Crosthwaite U.K. private client firm to Rensburg. As part of that $330 million deal, Investec took a 47% stake in the newly formed Rensburg Sheppards. At the time, Rensburg described the deal as "transformational," creating the seventh-largest private client manager in the U.K.

In announcing this year's transaction, Investec CEO Stephen Koseff called Rensburg "a good investment" and full ownership "the natural next step for both businesses," while Rensburg CEO Steve Elliott praised the ownership "clarity" the deal provides, "enhanced by a strong strategic fit and common vision." Rensburg has $18 billion in funds under management, unchanged since the 2005 tie-up with Carr Sheppards. Publicly traded securities firm and asset manager **Collins Stewart** made two acquisitions through its wealth management unit, including of a Guernsey private client firm, **Corazon Capital Group** (AUM: $570 million). London-based Collins Stewart, which also has offices in Guernsey, Jersey and Isle of Man, said the deal "reinforces [its] position as the largest wealth manager in the Channel Islands." In a second deal, Collins Stewart acquired a London private client firm, **Anderson Charnley**. Collins Stewart has nearly $10 billion in assets under management and administration and has set a goal of accumulating $15 billion by 2012, in part through "bolt-on acquisitions."

In another U.K. wealth deal, **Applewood Wealth Management** made its second acquisition in as many years, buying **Simply Ethical**, an "ethical advice" provider with $29 million in AUM. Based in Chester (south of Liverpool), Applewood last year set a goal of acquiring $150 million in assets over a 12-month period, with the two acquisitions bringing the firm nearly two-thirds of the way toward that mark. As part of the expansion effort, Applewood sent letters to 340 independent firms in its region.

In a tie-up between two U.K. fund managers, **F&C Asset Management** acquired **Thames River Capital** (AUM: $6.4 billion) for an initial consideration of $50 million, with additional performance-based payments of $30 million possible. Founded in 1998, Thames River manages a variety of traditional and alternative funds, including hedge and property funds. The portfolio includes a niche fund like the Water & Agricultural Fund, along with global credit funds. F&C, which three years ago announced its intention to develop a "multi-specialist asset management business," said the acquisition "will accelerate the diversification of the group beyond its traditional core business and client channels into higher growth and higher fee margin product areas." Additionally, F&C pointed to the enhanced distribution capability it will gain through Thames River, along with a retail and wealth clientele to offset its institutional focus.

In another all-U.K. deal driven in part by the demand for alternative products, **Aberdeen Asset Management** paid $130 million for the asset management business of **Royal Bank of Scotland**, gaining $20 billion in AUM in a mix of long-only multi-manager funds (67% of AUM); fund of hedge funds (30%); and private equity and real estate fund of funds (3%). The addition gives Aberdeen — already the U.K.'s largest independent asset manager — $230 billion in AUM. RBS represents Aberdeen's largest deal since December 2008, when it acquired most of **Credit Suisse Group**'s long-only fund management business (Credit Suisse became a minority shareholder in Aberdeen as part of the transaction).

Last year, the London-based firm indicated it was eyeing the fund of hedge funds sector for an acquisition, with the RBS deal paid for through a share placement by Aberdeen. Significantly, the deal includes a five-year distribution agreement involving RBS' private client business, including its private bank, Coutts. RBS, majority owned by the British government following its bailout, is selling off assets to raise cash and reorganize around its core banking businesses. **Ignis Asset Management** of Scotland entered a "strategic partnership" with **Castle Hill Asset Management** involving Ignis' spinoff of the specialist credit investment manager into a separate company majority-owned by its employees. Ignis, which has three other asset management joint ventures,

will hold a 49% stake in Castle Hill, which is based in the U.S. and U.K. Castle Hill has $2 billion in AUM, including subadvisory mandates from Ignis and $50 million in seed capital for the **Castle Hill Total Return Fund**, a hedge fund focused on "opportunistic credit strategies and capital structure arbitrage."

Securities

Deals in the securities industry were led by **JPMorgan Chase**'s $1.7 billion acquisition of the **RBS Sempra Commodities** global metals, oil and European energy assets business, which will be integrated into the bank's global commodities business. JPMorgan Chase said the transaction doubles the number of corporate clients its commodities business can serve while extending its product offerings. **Royal Bank of Scotland** said it will "actively consider various ownership alternatives" for its remaining stake in RBS Sempra, which retained its North American gas and power operations. RBS' partner, California-based Sempra Energy, develops energy infrastructure, operates utilities, and provides related products and services.

A second major bank, **Barclays**, paid $25 million for **LaBranche & Co.**'s Designated Market Maker (DMM) assignments on the New York Stock Exchange, in the process strengthening its position as the leading DMM on the NYSE. LaBranche with some 700 NYSE-listed securities, is the third-largest DMM by number of securities traded, while Barclays was responsible for 900 securities on the exchange prior to the deal. In recent years, Barclays has acquired the market-making operations of Bear Wagner Specialists and Lehman Brothers as the industry has consolidated around a handful of players. LaBranche said it will focus on its market making operations in such areas as exchange traded funds and equity and foreign exchange options, as well as its institutional brokerage business. With fewer capital requirements after unloading its DMM operations, LaBranche announced the repurchase of its outstanding bonds and a new share buyback program.

Another global giant, **Macquarie Group**, acquired the cash equities sales and research business of **Sal. Oppenheim jr. & Cie.**, the German private bank acquired last year by **Deutsche Bank**. The Australian company called the deal "a logical step in the evolution of [its] equities business as it expands our coverage into continental Europe, giving us a particularly strong presence in Germany." When Macquarie's existing cash equities business in Europe is combined with Sal. Oppenheim's, the resulting business will provide research coverage for more than 400 companies in Europe. **Citigroup** sold its **LavaFX** foreign exchange electronic trading platform to **FXall,** saying a "multi-bank platform is best owned by a multi-bank provider." Citi is expected to remain a market maker for the FXall platform.

For FXall, which provides foreign exchange trading services to more than 1,000 institutions worldwide through its electronic platform, the deal is expected to enhance its business among high-frequency traders such as hedge funds. **Nasdaq OMX Group** made two acquisitions to enhance its derivatives and clearing exchange platform, buying **Nord Pool ASA** of Scandinavia, the world's largest power derivatives exchange and one of Europe's largest carbon exchanges; and **North American Energy Credit and Clearing Corp.**, a Chicago-based clearinghouse for over-the-counter power and gas markets. ▲