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Negative rates and other strange doings

As the *Wall Street Journal* detailed in April, the Christensens of Denmark enjoy what would have once been considered an unimaginable deal on their mortgage: Instead of paying interest in the latest quarter, the couple actually received a $38 credit from the bank. The reason: The mortgage rate, as of December 2015, entered negative territory. Referring to his bank statement, Han Peter Christensen told the *Journal*: "My parents said I should frame it, to prove to coming generations that this ever happened."

Welcome to the alternative universe that exists in much of Europe these days and in Japan, where negative rates have become, well, normal. As of April, Fitch Ratings reported that nearly $10 trillion in sovereign debt was trading at negative yields (about 70% long term), with some observers engaging in what is for now a strictly academic debate about whether the Federal Reserve could ultimately add the U.S. to that list.

In his April annual shareholder letter, **BlackRock** Chairman and CEO Larry Fink decried the toll low and negative rates "are taking on the ability of investors to save and plan for the future," creating "profound implications for economic growth." Minus attractive interest rates, he argued, consumers are likely to save more so they can reach their retirement goals. "A monetary policy intended to spark growth, then, in fact risks reducing consumer spending." Prominent *Financial Times* economics columnist Martin Wolf begged to differ, opining that negative rates are more a symptom of a savings glut relative to investment opportunities than they are of central bank manipulation. Market forces, he argued, are setting the table. "Alas, the market is saying that their savings are not worth much, at least at the margin."

There are stirrings beyond the world of monetary policy. In the bastion of capitalism, voters gave a historically unprecedented level of support to a socialist candidate, while a celebrity entrepreneur with questionable policy chops marched toward the Republican nomination. On both sides of the political aisle in the U.S., the Trans-Pacific Partnership came under attack as a domestic job killer, as politicians reacted to public misgivings about the benefits of free trade. The pushback against globalization was also evident in Europe, most notably in the U.K.'s vote to leave the European Union, but also in France among supporters of Marine Le Pen and her National Front party and in the open border debate that followed in the wake of terrorist attacks in Brussels and Paris and the flood of Syrian refugees.

Amid the political and economic swirl, markets searched for a direction. In the U.S., the S&P 500 had dropped 10% by the second week of February for its worst start to a year since 2008. Abruptly, the index began a turnaround that saw it recoup those losses by March and then trade in a narrow range through the succeeding months. The rebound came against the backdrop of declining corporate profits and historically elevated valuations. The U.K. market followed a similar pattern while returns in Germany and France lagged. Among major markets, Japan was faring the worst, off 13% by mid-May. The MSCI Emerging Markets Index also dropped sharply as the year began before rebounding to recapture lost ground. Not surprisingly given

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the environment, investors cooled on publicly traded asset managers: The asset managers slice of the Dow Jones U.S. Total Market Industry Groups rose 1.4% in the first five months of the year, placing the group in the bottom third of the various Dow subsectors.

Dealmaking in the first half remained active, however, following a busy 2014-2015. Transactions were diverse, with several significant deals. The largest non-alternative one followed a familiar post-2008 pattern involving restructuring- or duress-driven divestitures: **BTG Pactual**'s CHF 1.3 billion ($1.3 billion) sale of Swiss wealth manager **BSI Group**. The sale was part of BTG's bid to shore up its financial position following the alleged bribery scandal in Brazil involving CEO Andre Esteves. For buyer **EFG International**, the purchase doubles its size and standing among Swiss private banks. In a second opportunistic deal, **Oversea-Chinese Banking Corp.** of Singapore paid $320 million for **Barclay**'s Asian wealth and asset management business, capitalizing on the British bank's global retrenchment. In a third deal fitting the pattern, **State Street** paid $485 million for **GE Asset Management**, as General Electric continued to shed financial assets.

On the eve of its "Brexit" vote, the U.K. played host to three notable transactions within its consolidating wealth business. The largest involved **Tilney Bestinvest**'s £600 million ($860 million) deal for **Towry** to create one of the largest independent wealth managers in the U.K. Two additional cross border deals with London targets saw **Societe Generale** acquire a venerable British name, **Kleinwort Benson**, while Switzerland's **LGT Group** took a majority stake in a relatively young but fast-growing firm, **Vestra Wealt**h.

Investors loaded up on a range of alternative deals in the first half, including **Ares Capital Corp.**'s $3.4 billion purchase of **American Capital** and **Legg Mason**'s acquisitions of real estate advisor **Clarion Partners** and fund of hedge funds manager **EnTrust Capital**. Other high-profile "alts" buyers included affiliates of **Fortress Investment Group** and **Northern Trust**, as well as **Affiliated Managers Group**, **BNP Paribas** and **Goldman Sachs**. Following the hiring last year of two executives from Vanguard's exchange traded fund business, Legg Mason also took a minority stake in ETF provider **Precidian Investments**, while **Columbia Threadneedle**, **Hartford Funds** and **J.P. Morgan Asset Management** all acquired ETF firms with a foothold in the smart beta market. Goldman Sachs secured a second deal in the first half that marked a bid to expand in the individual retirement market when it acquired startup **Honest Dollar**, an online provider of IRAs for small and medium-sized firms.

In U.S. wealth management, there were multiple mid-size deals of note, including **BNY Mellon**'s bid to extend its California business with the acquisition of a San Francisco Bay-area firm, **Atherton Lane Advisors**. In the Midwest **Johnson Financial Group** acquired **Cleary Gull Advisors** to create a firm with more than $8 billion in assets under advisement. Private equity firms **Genstar Capital** and **Lovell Minnick Partners** cut a deal to merge their two wealth managers, **Mercer Advisors** and **Kanaly Trust**, with an eye "towards scaling a national wealth management firm."

Money Management

Legg Mason secured three deals in the first half, with one involving a minority investment in an exchange traded funds specialist, **Precidian Investments** *(see Alternatives for information on Legg's two other deals)*. Legg acquired a 19.9% stake in Precidian, with the option to acquire a majority interest. The deal follows Legg's hiring in 2015 of two ETF executives from **Vanguard** to build out that part of its business. New Jersey-based Precidian operates on two fronts, creating its own subadvised ETFs and developing "solutions, structures and products" for financial services firms. The Baltimore asset manager called Predician a "perfect partner to work on product development in fast-growing areas of the ETF market." In particular, Precidian, through its "ActiveShares" mechanism, is seeking to introduce actively managed ETFs that are not required to disclose daily portfolio holdings. Precidian is still awaiting regulatory approval for that structure, however, with two previous efforts having been rejected by the SEC.

There were three other ETF transactions focused on the fast-growing smart beta market. **J.P. Morgan Asset Management** acquired a minority stake in New York's **Global X Management**, which offers a diverse portfolio of more than 40 ETFs (AUM: $3 billion). JPAM, with a small portfolio of its own "strategic beta" ETFs, stressed that the two firms will not engage in co-marketing, investment management or distribution agreements, saying the deal "augments our ETF strategy by expanding and deepening our participation" in the industry. Robert Deutsch, head of JPAM's ETF business, told the *Wall Street Journal* his firm viewed the transaction as an investment and "would share in [Global X's] profits, as an investor would." In the second deal, **Columbia Threadneedle** bought New York-based **Emerging Global Advisors**, a specialist in emerging market-focused smart beta products with $900 million in AUM. EGA, founded in 2008 and first out of the box with dedicated emerging market ETFs, has nine such products that track custom-designed indexes. Columbia Threadneedle said those products complement its own active management orientation. In the last such deal in the first half, **Hartford Funds** acquired **Lattice Strategies** (AUM: $215 million), a San Francisco firm that started its risk-focused ETF business last year. Hartford said the "strategic beta space is a natural extension of [its] actively managed platform."

State Street will pay around $485 million for **GE Asset Management**, picking up $110 billion in institutional assets as the industrial corporation continues to divest large parts of its once-formidable financial services business. State Street said the deal will strengthen its existing equity and active fixed income capabilities while adding direct private equity and real estate know-how. The deal will also enhance State Street's standing in the business of managing pension and insurance assets, which are part of GEAM's portfolio, including GE's U.S. pension plan. State Street said it anticipates the deal will exceed its 11% internal rate of return hurdle and has targeted a 90% retention rate for assets. Separately, Federal regulators dropped GE from the list of "systematically important financial institution."

Goldman Sachs made a push to expand in the individual retirement market by acquiring a year-old startup, **Honest**

Dollar, an online provider of individual retirement accounts. The Texas firm targets small- and medium-sized firms that do not offer 401(k)s, as well as the self-employed, with a low-cost and simple IRA program built around ETFs. As with other robo advisors, clients simply answer an online questionnaire and are matched with an asset allocation model. Honest Dollar, which charges $8 to $10 per employee a month, will be wrapped in Goldman's asset management division, which said the partnership has "the potential to help millions of people achieve their savings goals."

In a fixed income deal, **Mariner Holdings**-owned **Tortoise Investments** acquired **Bradford & Marzec**, a 32-year-old Los Angeles firm with $4.3 billion in AUM. Tortoise cut the deal through its credit strategies unit, and was joined by B&M management, which assumed a 37% stake in the firm. B&M is a long-only U.S. and global manager for institutional and high net worth clients, with more than half of its assets in core-plus products. The firm says its focus on liquid strategies allows it to shift among sectors "in accordance with our macro view" to "add excess return." **Pacific Asset Advisors** acquired Boston's **Cadence Capital Management**, which provides "customizable" beta, growth equity and long/short strategies. Cadence (AUM: $4 billion) serves mutual funds, institutions and high net worth investors, and had been part of PAA parent **Pacific Life Insurance Co.** until 2000.

Canada's **Fiera Capital** crossed its southern border for the second consecutive year to pay $145 million for fund manager **Apex Capital Management** of Ohio. Founded in 1987 and employee owned, Apex is a U.S. growth equity manager with $7.1 billion in AUM. The firm manages its own branded small- and mid-cap fund, does subadvisory work and manages separate accounts. For example, it subadvises a small-cap growth fund for **Touchstone Investments** that merges a top-down secular growth analysis with bottom-up equity picks. Montreal-based Fiera called the deal "an important step in advancing our U.S. growth strategy" and said it would be immediately accretive, adding 10% to 15% to adjusted earnings per share. Last year, publicly traded Fiera acquired a New York fixed income manager, **Samson Capital Advisors**, adding about $7 billion in AUM the $10 billion it already managed in the U.S. With the addition of Apex, Fiera will have more than one-quarter of its AUM in the U.S. In a note to clients, Apex said the connection with Fiera "will expand our resources, depth and global research capabilities." In a domestic deal, Fiera created a joint venture with an infrastructure specialist, **Aquila Infrastructure Management**, with invested and committed capital of C$500 million ($380 million). The venture brings Fiera's infrastructure assets to C$1.2 billion.

In Canada, insurer **Foresters** acquired the former Canadian asset management business of **Aegon**, adding C$10 billion ($7.5 billion) in AUM. The deal was secured with a unit of the **Canada Pension Plan Investment Board**, which completed the purchase of Aegon's Canadian asset management business last year, as well as the Dutch insurer's Transamerica Life Canada business. The acquisition provides Forester with entry into the Canadian asset management market (Forester already manages assets in the U.S. through a U.S unit). Foresters said asset management will complement its Canadian insurance business with a "broader range of financial solutions" and cited the synergistic opportunities between its annuity products and Aegon's "product offerings in the retail space." The Aegon retail business includes six fixed income and equity **imaxxFunds**. One, Global Equity Growth, mixes ETF market indexes with individual securities and has a heavy tilt toward the U.S.

China's acquisitive **Anbang Insurance Group** paid $3 million for **Allianz**'s South Korean insurance and asset management businesses, just shortly after dropping its high-profile bid for Starwood Hotels & Resorts Worldwide. While Anbang's focus was on the loss-making insurance business, **Allianz Global Investors Korea** has around $12 billion in AUM. Allianz said it will continue to serve institutional investors in the market with offshore products. Anbang, which acquired another South Korean insurer last year, said the deal is in line its "globalization" investment strategy.

Wealth Management

As robo advisors generate more publicity, clients and assets, one of the larger ones completed a new round of fundraising that saw its valuation climb around 50% above the value investors placed on it a year ago during the last capital infusion. New York-based **Betterment**, founded in 2008, was valued at $700 million as a result of the $100 million fundraising in the first quarter, with AUM and clients having grown some threefold since early 2015 to $3.9 billion and 150,000, respectively. Amid that vote of investor confidence in Betterment, traditional wealth managers — which are keeping a wary eye on these upstarts in the mass affluent market — continued to consolidate, with the largest deals taking place in Europe courtesy of Switzerland's **EFG International** and the U.K.'s **Tilney Bestinvest**, among others *(see Europe)*.

In the U.S., there were three mid-size deals of note with diverse geographic targets. **BNY Mellon** enhanced its footprint in California and Silicon Valley in particular with the acquisition of **Atherton Lane Advisors**, a San Francisco Bay-area independent manager with $2.7 billion in AUM. Founded in 2005, Atherton's "typical client family" has some $3 million in assets with the firm. Atherton, which will be wrapped into BNY Mellon's wealth division, said it will benefit from its new parent's "financial strength, breadth and quality of resources" and thereby "greatly strengthen and diversify the solutions and capabilities we deliver to our clients." Separately, Mitchell Harris replaced Curtis Arledge as CEO of BNY Mellon's asset management unit. Harris has been with BNY Mellon since 2004, serving for five years as head of its **Standish** boutique and most recently as president of the asset management group.

In a tie-up between two Wisconsin managers, **Johnson Financial Group** acquired **Cleary Gull Advisors**, adding $2.1 billion in assets under advisement to the $6.4 billion it already advised. The deal is in keeping with JFG's strategy of expanding its wealth business, which after the acquisition will account for 15% of revenue. JFG, part of privately held consumer products group Johnson Family Enterprises, also provides banking and insurance services. Michael Cleary, chairman and CEO, said he reached out to JFG as part of an effort to clarify the future of his 29-year-old firm. "One of the things our clients are going to be looking for in the next five to 10 years is what's next for Cleary Gull," he told the *Milwaukee Journal Sentinel*. "This solves the problem."

Two private equity owners struck a deal that saw **Mercer Advisors** acquire **Kanaly Trust** to create an independent firm with $8 billion in assets under management and advice. Mercer, with $6 billion in assets, was acquired last year by **Genstar Capital** from **Lovell Minnick Partners**, which also owns Kenaly. Both private equity firms retain stakes in the enlarged wealth firm. "The merger with Kanaly Trust is a significant step towards scaling a national wealth management firm to a broader base of sophisticated clients," said Genstar. Mercer, which gains access to the trust services administered by Houston's Kanaly, is based in Santa Barbara, Calif., with 18 other offices throughout the U.S.

BOK Financial, of Tulsa, Okla., stepped into the wealth marketplace for the third time since 2012, adding $340 million in AUM by acquiring Texas-based **Weaver Wealth Management.** BOK cited the firm's "solid client base of executives and families" and presence in the "important North Texas market." Texas is a key market for BOK, delivering regular double-digit earnings growth. Weaver, part of a larger accounting firm of the same name, will be wrapped into BOK's wealth unit, **Milestone Group**, acquired in 2012. **Aspirant** made a similar sized deal for **Glowacki Group** (AUM: $360 million) in a tie-up between two Los Angeles firms. Founder and CEO Michael Glowacki will become an owner and principal in Aspirant as part of the deal. Aspirant has offices in four separate California locations and five offices in the Midwest and on the East Coast. Aspirant, with $9 billion in assets under management and advice, concluded a deal for another independent Southern California firm late last year, **Hokanson Associates**.

In Asia, Singapore's **Oversea-Chinese Banking Corp.** paid $320 million for **Barclay**'s wealth and asset management business based in Singapore and Hong Kong, as the British bank unwinds much of its international footprint. For OCBC, the deal adds more than $18 billion in assets to the $55 billion it already managed; strengthens its presence in its four core markets of Greater China, Indonesia, Malaysia and Singapore; and involves "little overlap in client relationships." In 2009, OCBC capitalized on the retrenchment of another European financial firm when it acquired **ING Groep**'s Asian wealth business for $1.5 billion. Wealth management accounts for 27% of OCBC's total income.

A second cross border deal involving Singapore saw **Old Mutual Wealth** of the U.K. acquire **AAM Advisory**, which bills itself as the "largest expatriate advisory firm" in the island republic. Old Mutual said AAM will operate independently from other Old Mutual businesses in Asia. AAM has 30 advisors, nearly $300 million in AUM and 3,500 clients, and has grown rapidly since its emergence as an independent company in 2009. The two firms have worked together for a number of years. Separately, parent company **Old Mutual** announced plans to split its business into four separate entities, including the wealth unit, "to unlock value currently trapped within the Group structure" and to gain "more straightforward regulatory arrangements." A number of firms are reportedly preparing to make offers for the wealth business.

Alternatives

Legg Mason was the one of two headline buyers in the alternatives space in the first half, cutting two deals, including one of the largest in recent years for a real estate advisor: The $585 million purchase of an 83% stake in New York-based **Clarion Partners** (AUM: $40 billion). Legg acquired the stake primarily from New York private equity firm **Lightyear Capital**, which specializes in middle-market financial services companies and made the Clarion investment in 2011. Clarion management retains the remaining 17%. Legg, pegging the valuation at 10.5 times EBITDA (earnings before interest, taxes, depreciation and amortization), said the deal "significantly expands" its alternative offerings, "adding differentiated real estate capabilities." Clarion, founded in 1982, manages core, core-plus, and opportunistic portfolios for 200 global institutions; its AUM has doubled since 2005.

In the second deal, Legg acquired fund of hedge funds manager **EnTrust Capital** (AUM:$12 billion), which it will wrap into its **Permal** hedge fund unit. The new entity, **EnTrustPermal**, will have $26 billion in AUM, more than 4,300 investors worldwide (including 700 institutions), and take a place among the world's largest hedge fund managers. Entrust, founded in 1997 and based in New York, manages a diversified portfolio and has recorded $5 billion in net inflows since 2008, with 40% from existing investors. The company's institutional client list has tripled since 2010 to nearly 480. In Legg's first-quarter earnings call, Chairman and CEO Joe Sullivan said the deal adds "scale and complementary investment capability and distribution in the hedge funds alternatives category." Legg made an upfront cash payment of $400 million and granted EnTrust co-founder and Managing Partner Gregg Hymowitz a 35% stake in EnTrustPermal. The two deals come on top of a third alternatives acquisition Legg Mason concluded last year for 75% of Australian infrastructure specialist **RARE Infrastucture**. Legg made one other deal in the first half, for an exchange traded fund manager *(see Money Management)*.

The second major buyer was **Affiliated Managers Group**, which added to its stable of alternatives managers by paying $800 million for 100% of the minority equity interests in five hedge fund managers held by Petershill Fund I, run by **Goldman Sachs**. The five diverse managers have a combined $55 billion in assets, with **Winton Capital Group** accounting for $35 billion. Winton, based in London, has a portfolio that includes multi-asset as well as long-only products. AMG also acquired a minority interest in **Baring Private Equity Asia**, one of the largest players in Asian private equity with $8 billion in AUM. Last year, Baring closed what it called a "heavily oversubscribed" $4 billion Private Equity Fund VI, one of the largest such funds ever raised in Asia. The fund will invest in Asian companies as well as North American and European companies "with growth plans in Asia, in a broad range of sectors." Baring, founded 19 years ago, called AMG "the ideal permanent partner... as we move into the next phase of growth." Last year, AMG made investments in three firms that manage alternatives in whole or part.

Goldman Sachs took a 10% stake in a Maryland hedge fund, **Fort L.P.**, via its Petershill Fund II, which makes minority investments in hedge funds with around $2 billion to $15 billion in AUM and track records of four to five years. Started in 1993 by two former managers for the World Bank's investment group, Fort L.P (AUM: $1.5 billion) pursues systematic strategies across asset classes worldwide to generate returns uncorrelated to equities. For example, the firm's flagship Global Contrarian fund aims to anticipate shifts in market direction, taking both long and short positions across equity indices, bonds, currencies and commodities. The fund delivered a slightly positive performance during the 2008 market crash year and has beaten its indices over the course of a 14-year history.

In a deal between two European-based "quant" hedge funds, **Aspect Capital** acquired **Auriel Capital Management**, adding $1.4 billion in assets to the $5.2 billion it already managed. Auriel, founded in 2004, provides Aspect with expertise in currency trading. London-based Aspect, which runs a flagship managed futures program, said it has "been looking for research expertise in diversifying investment strategy capabilities from a variety of external sources." Auriel's two co-founders will also introduce a global macro bond and currency fund. Aspect said "medium-term trend-following will remain our core focus as it has since our inception 18 years ago."

In the U.S. private equity industry, the marquee deal involved **Ares Capital Corp.**'s $3.4 billion acquisition of **American Capital**, which has both business development and asset management units. The cash-and-stock acquisition enhances Ares' strength in the middle-market lending business. Based in Maryland, American Capital originates, underwrites and manages investments in middle-market private equity, leveraged finance, real estate and structured products. The company manages $20 billion in assets on its balance sheet and through affiliates, but has $77 billion in total AUM, including leverage. "The growing demand for capital from middle-market borrowers has created the need for flexible capital providers like us to fill the financing gap as banks continue to retrench from the market," said Michael Arougheti, co-chairman of Ares Capital, which is part of **Ares Management**.

A second U.S. private equity deal saw **HarbourVest Partners** acquire **BAML Capital Access Funds**, a fund of funds manager with $1.9 billion in capital commitments over the course of a 14-year history. BAML, which had been part of **Bank of America**, says it was the first fund of funds manager to "measure, capture and report on the social impact of its investments and has been consistently recognized for its emphasis on socially responsible investing." Following the deal, HarbourVest (AUM: $39 billion) rebranded BAML as **HarbourVest Horizon**, with a focus on emerging and diverse managers and funds investing in companies that have "historically lacked access to capital."

There were several cross border private equity deals, all with an Asian connection. **BNP Paribas** struck a strategic partnership with an established Hong Kong-based real estate advisory and private equity firm, **Orion Partners** (AUM: $1 billion). The deal was concluded through the French bank's alternative unit, **BNP Paribas Capital Partners**. The unit will take a minority stake in the partnership with plans to develop Asia-focused alternatives funds for institutional and retail investors. BNP Paribas and Orion have worked together for a decade developing and distributing Asia-focused products for institutions worldwide. BNP said the deal "broaden(s) our exposure to fast-growing alternative investment opportunities in Asia, managed by a leading Asian-based and Asian-focused firm."

Indian financial services firm **Religare** divested its two U.S. holdings, saying it had taken a "strategic view to consolidate and refocus our energies" on the Indian market, given its "tremendous future growth potential." In the first deal, London's **Capital Partnership** bought San Francisco's **Northgate Capital**, with $4.8 billion in private equity and venture capital AUM. In the second, **OM Asset Management** acquired Religare's share in **Landmark Partners**, an investor in secondary private equity, real estate and real assets with $15.5 billion in committed capital since its founding in 1989. For a 60% stake, OMAM will pay $240 million and up to an additional $225 million based on performance through 2018. OMAM is a majority-owned subsidiary of **Old Mutual**.

In the structured credit marketplace, there were three deals of note, all with North American targets. In a strictly domestic deal, an affiliate of **Fortress Investment Group** acquired the management contracts for $1.4 billion in four collateralized loan obligations from **Hildene Leveraged Credit**. For New York's HLC, part of **Hildene Capital Management**, the transaction marks an exit from the CLO business. HLC was created after the financial crisis in a bid by HCM founder and President Brett Jefferson to capitalize on the opportunities CLOs held for higher returns in a low-rate environment. As an incentive for investors, HLC effectively chopped its management fee by pumping most of that income back into its funds. Fortress has around $18 billion in credit funds, made up of hedge funds and private equity, the latter of which includes distressed and undervalued assets.

One of Canada's leading investors for institutions, **Alberta Investment Management**, assumed a minority stake in a New York structured and alternative credit specialist, **DFG Investment Advisers**. The two firms have collaborated for more than six years on a "range of strategies across public markets," with emphasis on alternative credit products, but AIM said the deal will "deepen the relationship between the two organizations." DFG, founded in 2006, manages $2 billion in corporate and structured credit assets via commingled funds, separate accounts and CLOs. In a second cross border deal, **Schroders** acquired the $4 billion asset- and mortgage-backed securities team from Toronto's **Brookfield Asset Management**, doubling the size of its New York-based ABS business. The Brookfield team manages U.S. products and an Irish Qualifying Investor Alternative Investment Fund. Schroders praised the Brookfield team for having "one of the longest and strongest track records in the sector" and said the acquisition will strengthen its "investment capability" for global clients "seeking higher-return opportunities within fixed income."

In the property sector, real estate services firm **JLL** of Chicago acquired one of Germany's leading retail real estate asset managers, **Acrest**. Based in Berlin, the 10-year-old company manages more than €5 billion ($5.4 billion) in assets comprising 5 million square meters of leasable retail space. JLL already has a large presence in Germany, with offices in nine cities. JLL said the acquisition expands its retail services "to include a highly professional and well-established capability." Acrest cited JLL's "leading position" throughout Europe and elsewhere that will allow it to "work with German clients on an international scale, expanding our existing capabilities."

Europe

Last year, **BTG Pactual** paid CHF $1.3 billion for Swiss wealth manager **BSI**, part of an effort by the Brazilian investment bank to extend its global franchise. The deal represented a major statement by the emerging market firm, but was also symbolic of the strides made by Brazil itself. In the first quarter of 2016, BTG — wracked by a domestic bribery scandal, the subsequent resignation of it high-profile CEO Andre Esteves, and seeking to raise capital — sold off that stake for CHF 1.3 billion ($1.3 billion) to Swiss private bank **EFG International**. The acquisition more than doubles EFG's AUM to CHF 170 billion, making it Switzerland's fifth-largest private bank with a "strong presence" in Europe and an expanded footprint in Asia and Latin America. EFG said it expects to generate pre-tax cost savings of CHF 185 million by 2019, or around 15% of the combined cost base of both firms. The cash-and-shares deal will leave BTG with a 20% stake in EFG.

There were multiple deals involving either U.K. buyers or targets, including four significant transactions within the consolidating wealth business in that market. In the one purely domestic deal, **Tilney Bestinvest** paid £600 million ($860 million) for **Towry**, one of the largest independent wealth managers in the U.K. with more than £9 billion in assets. The combined firm will have £20 billion — 40% managed for clients with more than £1 million in assets — and a national footprint with 30 offices. Tilney Bestinvest cut the deal with Towry majority shareholder **Palamon Capital Partners**, a London firm that said it will enjoy a return of 13 times invested capital. Prior to the Towry deal, Tilney Bestinvest acquired **Ingenious Asset Management**, with £1.8 billion in assets. Ingenious Asset Management, established in 2003 and part of the larger **Ingenious** financial services group, takes a global, multi-asset approach to investing. Owned by European private equity firm **Permira**, Tilney Bestinvest was itself created in 2014 from the merger of Tilney and Bestinvest.

A second domestic deal involving a non-U.K. parent saw **Standard Life** acquire **AXA**'s U.K. advisory business, **AXA Elevate**. Standard Life said the acquisition "enhances [our] position as a leading platform provider for professional advisers," adding 160,000 customers and £9.8 billion in assets under administration. Following completion of the transaction, Standard Life's platform will have £36.4 billion in AUA and 350,000 customers, including a greater number of the "mass affluent" customers who define the AXA Elevate business. Separately, Standard Life's year-old advisory subsidiary, **1825**, made three acquisitions in the U.K., including London's **Baigrie Davies**, adding a total of £1.4 billion in assets. "We've taken Baigrie Davies to a point where we feel more resource is needed to continue to grow the business and provide the best possible proposition and service to our clients," said Managing Director Ian Howe.

The other two major transactions crossed borders, the first of which saw **Societe Generale** acquire **Kleinwort Benson**, a venerable name in British wealth management. The French bank plans to wrap Kleinwort inside its **SGPB Hambros** wealth business in the U.K. and Channel Islands to "create one of the leading private banks in the U.K. market." The combined firm will have £14 billion ($20 billion) in AUM and more than 1,000 employees. SocGen said the deal "reflects [its] growth ambitions in private banking in its core markets of Europe, the Middle East and Africa." When **Oddo & Cie** acquired **BHF Kleinwort Benson** last year, the Paris-based investment bank indicated its intention to sell part of the U.K. business to SocGen. BHF Kleinwort has been sold several times since the 1990s. In the second cross border deal, Switzerland's **LGT Group** acquired a majority stake in London-based **Vestra Wealth**, a fast-growing 8-year-old firm with £5.6 billion in assets. For LGT, with CHF 132 billion ($138 billion) in AUM, the deal provides a "significant foothold" in the U.K. market. In recent years, LGT had focused its expansion in Asia.

Following the SocGen-Kleinwort Benson deal, **Amundi** acquired 87.5% of **Kleinwort Benson Investors** from Oddo & Cie, with management at the Dublin-based equity specialist assuming the remaining 12.5%. KBI manages €7.6 billion ($8.5 billion) in assets for institutions and registered average annual growth in assets of 28% between 2011 and 2015, with 52% of assets managed for North American clients and another 40% for European clients. Amundi said the deal "is fully in line" with its criteria for acquisitions, being immediately accretive to earnings per share and with an expected return within three years "superior to 10%." A cross-border European deal involving a U.K. bond shop saw **Allianz Global Investors** acquire **Rogge Global Partners** from majority owner **Old Mutual** and Rogge management. Established in 1984, Rogge has £34 billion ($50 billion) in AUM and a global orientation. The German asset manager called the addition "a further important step in the development of [our] global fixed income capability" while noting that Rogge also extended its footprint in the U.K. AGI parent **Allianz** also owns **Pimco**, creating a situation where the U.S. bond giant will be in competition with Rogge. The U.K. bond manager offers a range of funds spanning government, investment grade, emerging markets and high yield.

In a cross border deal involving a German target, Switzerland's **Bellevue Group** acquired **StarCapital**, an independent multi-asset manager with CHF 2.5 billion ($2.6 billion) in AUM. Bellevue, with more than CHF 5 billion in AUM prior to the deal and a specialization in the healthcare area, said StarCapital extends its investment portfolio into new asset classes. Publicly traded Bellevue said it would raise CHF 30 million to CHF 40 million in a rights issue to pay for StarCapital and other potential acquisitions. The financial services company had record AUM and asset management earnings in 2015. In the Netherlands, a deal between two government-controlled institutions saw insurer a.s.r. acquire institutional asset manager **BNG Vermogensbeheer** from **BNG Bank**, thereby strengthening its position in the Dutch market for external asset management. BNG, with €5 billion ($5.4 billion) in AUM, manages customized portfolios and specialized investment funds on behalf of its clients, which range from universities to charitable trusts to pension funds. a.s.r.'s existing asset management unit runs funds for its life insurance clients and **a.s.r. Bank** and has around €6 billion in AUM. The Dutch government, which took control of a.s.r. as part of the 2008 bailout of Fortis, is planning to privatize the company this year.

Northill Capital of the U.K. took a 60% stake in a Copenhagen-based fixed income manager, **Capital Four**, bringing the number of diverse affiliates in its portfolio to five. Capital Four partners retain the rest of the firm's shares. Founded in 2007, Capital Four has €6 billion in mostly institutional AUM across numerous strategies, including high-yield, leveraged loans, credit long/short and direct lending; it is the largest independent high-yield manager in Europe. Northill Capital, backed by Swiss-Italian billionaire Ernesto Bertarelli and started in 2010, said it will work "jointly with Capital Four to ensure the business continues to grow and develop whilst maintaining its strong investment performance." Northill Capital's affiliates had a combined €30 billion in AUM prior to the Capital Four deal.

Securities

The key securities deal added another potential milestone to a consolidating exchange industry as the **London Stock Exchange** and **Deutsch Borse** agreed to a "merger of equals" in which the German firm would hold a 54% share and headquarters would be based in London. The all-stock deal, if completed in the face of potential regulatory challenges and post-Brexit complications, would link the exchanges of Europe's two largest economies and key financial centers and create a more formidable competitor for U.S. rivals **CME Group** and **Intercontinental Exchange**. The combined group would be the most profitable global exchange, with €4.7 billion ($5.3 billion) in income, and play host to 3,200 listed companies with a combined market capitalization of €7.1 trillion. Of particular importance is the profitable area involving derivatives trading and clearing, which would account for 37% of combined revenues.

Referring to the rapid growth of the exchange traded funds market, the two firms also emphasized the "complementary combination of FTSE Russell's global leading benchmarking expertise with the derivatives and tradeable index franchise of STOXX/DAX," thereby providing "a complete indexing solution." The firms said cost synergies would amount to €450 million annually, or around 20% of their combined adjusted operating costs. Deutsche Borse CEO Carsten Kengeter called the deal "the logical evolution for our companies in a fundamentally changing industry. As a combined group we will create a European player that will compete on a global basis." The firms failed on two previous merger attempts in 2000 and 2004.

D.A. Davidson continued to expand via acquisition with the purchase of Nebraska-based broker-dealer **Smith Hayes Companies**. Davidson, based in Montana and with major offices in Denver, Los Angeles, Portland and Seattle, extends its presence in Nebraska via Smith Hayes, an established name in that market with $4 billion in assets under management and administration. D.A. Davidson had offices in Lincoln and Omaha, Neb., prior to the transaction. The deal boosts the assets under management and administration in D.A. Davidson's individual investor group to $40 billion. Tom Smith, chairman and co-founder of Smith Hayes, told the *Omaha World-Herald* the two firms are "similar in style and both are employee-owned, so it's a perfect fit for us." D.A. Davidson also announced that Crowell, Weedon & Co., a Los Angeles brokerage acquired in 2013 and with $8 billion in assets, will assume the D.A. Davidson name. In addition to serving individual investors, D.A. Davidson has investment banking and public finance units. Last year, the firm delivered record revenues.

Ally Financial paid $275 million for online brokerage firm **TradeKing Group**. Ally Financial, the rebranded former financing unit of General Motors, is using the deal to expand beyond its traditional lending and savings services. TradeKing, established in 2005 and based in Florida, has $4.5 billion in assets and incorporates a robo-advisor platform. "Our customers have been happy with our deposit products, but are asking for more," **Ally Bank** CEO Diane Morais told *Barron's*. In an interesting cross border deal, Egypt's **Beltone Financial Holding** acquired a 51% interest in a New York brokerage firm, **Auerbach Grayson & Co.** Founded in 1993, Auerbach specializes in global trade execution and research on developed, frontier and emerging markets for U.S. institutions; it has a network of local brokerage partners in some 125 countries. Beltone, an investment bank and asset manager, is controlled by Egyptian telecoms billionaire Naguib Sawiris. Beltone said the deal will enable it to expand its "global reach and product offerings to the U.S. market, in addition to boosting our expansion plans in frontier markets." ▲