Berkshire Capital Securities LLC

2016 | INVESTMENT MANAGEMENT INDUSTRY REVIEW

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About Berkshire Capital

Berkshire Capital is an independent, employee-owned investment bank specializing in M&A in the financial services sector. With more completed transactions in this space than any other investment bank, we help clients find successful, long-lasting partnerships.

Founded in 1983, Berkshire Capital is headquartered in New York with partners located in San Francisco, Philadelphia, Denver, London and Sydney. Our partners have been with the firm an average of 13 years. We are recognized as a leading expert in the wealth management, money management, alternatives, real estate and broker/dealer industries. We believe our success as a firm is determined by the success of our clients and the durability of the partnerships we help them to structure.

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The emerging glow dims

Given its status as the world's second-largest oil producer and with a population of just 30 million, the government of Saudi Arabia rarely needs other people's money. At the start of 2015, the nation's debt-to-GDP ratio was a microscopic 1.6%, and the last time the government tapped the bond market was in 2007. But when you rely on oil to sprinkle largesse on a potentially restive public and that commodity nosedives in price, money can quickly become an issue. Last August, having already sold off $60 billion in foreign assets to bridge a 2015 budget gap that the International Monetary Fund projects at 22% of GDP, the kingdom issued the equivalent of more than $5 billion in bonds for purchase by domestic banks.

As the world has catapulted from one crisis to another since 2008, chalk up 2015 as the year that emerging markets added their own chapter to the long-running saga. The culprits: a commodity price bust; a continuing soft global economy; and a worrying buildup in sovereign, corporate and household debt in many of those markets. In its October 2015 World Economic Outlook, the IMF projected growth in emerging markets at 4%, down from 4.2% in its July forecast, the 4.6% achieved in 2014, and half the pre-crisis level. The IMF pegs export growth in emerging markets at just 3.9% and import growth at 1.3%. In 2007, emerging market export and import growth stood at 9.8% and 13.8%, respectively. Growth in world trade volume in goods and services that year was 7.3% compared with the 3.21% projected for 2015. "For most emerging market economies, external conditions are becoming more difficult," writes the IMF. "While currency depreciation will help net exports, the 'pull' from advanced economies will be somewhat more modest than previously forecast, given their weak recovery and moderate prospects for medium-term growth."

The dominant such market, China, played the role of both diminished star and emerging markets spoiler, as its slowing economy pinched commodity-dependent emerging market exporters from Brazil to South Africa. Chinese imports declined every month in the first 11 months of 2015, including a 19% plunge in October from the year-earlier period. At 6.8%, the IMF's projection for 2015 Chinese GDP growth is in line with the government's projections and its longer-term "new normal" target in the 6.5% range. But many observers distrust official numbers and believe growth could be a percentage point or two lower based on their review of such data as trade, industrial production, railway freight volume and electricity use.

In response to the domestic slowdown, Beijing went into stimulative overdrive, lowering interest rates multiple times, announcing multiple infrastructure projects and relaxing bank reserve standards to spur lending. In the financial sector, the government cast its reformist intentions aside when the overheated stock market began tanking last June, erasing more than $4 trillion in market capitalization before it began a sharp upward move in late August. In an attempt to stabilize prices, Beijing took a series of aggressive measures, including buying an estimated $235 billion worth of shares in July and August via state-run investment funds and institutions; imposing broad restrictions on share trading; easing margin requirements; limiting short selling; and suspending initial public offerings. Beijing also launched insider trading investigations against high-profile Chinese securities firms and traders. According to the *New York Times*, authorities reviewing trading records went so far as to ask fund managers "why they sold shares when the market was going down, prompting discussion about basic investment strategy."

Underscoring the interdependence of the global economy, Federal Reserve Chair Janet Yellen referenced events in China in announcing last September that the long-awaited increase in U.S. interest rates would be put on hold yet again, with the Fed finally acting in December for the first time in nine years. That rate hike holds the potential to create additional stress for emerging markets by drawing global capital to U.S. Treasuries and other U.S. securities. In 2015, emerging market capital flows went sharply negative for the first time in 27 years: The Institute of International Finance (IIF) projected net outflows at $540 billion.

Emerging Funk

GDP GROWTH

	2007	*2015**	*2016**
Emerging Markets	8.3%	4.0%	4.5%
China	13.0	6.8	6.3
India	9.4	7.3	7.5
ASEAN	6.3	4.6	4.9
Russia	8.1	(3.8)	(0.6)
Emerging Europe	5.5	3.0	3.0
Brazil	5.7	(3.0)	(1.0)
L.Amer/Carib	5.7	(0.3)	0.8
Global	5.2	3.1	3.6

** Projected*
Source: IMF

As they reviewed the various pressures on emerging market economies, including the buildup of debt, analysts weighed the potential for another financial crisis. The IMF puts corporate debt among nonfinancial emerging market firms as of 2014 at $18 trillion, or more than four times the level 10 years earlier. During that time, the average emerging market corporate debt-to-GDP ratio has climbed 26 percentage points to nearly 75%. For corporations that borrowed in foreign denominations, which represent about one-third of the $3 trillion in bond-related debt, there's the added burden of weaker local currencies. "A key risk for the emerging market corporate sector is a reversal of postcrisis accommodative global financial conditions," writes the IMF.

Slower Trade Lanes

TRADE IN GOODS & SERVICES (% GROWTH)

	2007	2015*	2016*
Global (total)	7.3%	3.2%	4.1%
Advanced Economies (imports/exports)	4.7/6.3	4.0/3.1	4.2/3.4
Emerging Economies (imports/exports)	13.8/9.8	1.3/3.9	4.4/4.8

** Projected*
Source: IMF

Sovereign debt is another issue. In the first three quarters of 2015, governments in more than 30 emerging markets saw their debt downgraded by at least one of the major rating agencies, with commodity-dependent nations at particular risk. In September, for example, Standard & Poor's cut Brazil's sovereign debt rating to junk status with a negative outlook while Fitch lowered the rating similarly in December, as the economy endured its worst recession since the 1930s as well as a political crisis.

For emerging market specialists, the result of the economic and financial red flags was decidedly negative, as investors pulled money from funds and fund values fell in tandem with financial markets. Through early December, the MSCI Emerging Markets Index was down nearly 14% compared with minus 1.4% for the MSCI All Country World Index. **J.P. Morgan** figured the MSCI EM Index was trading at 12.8 times 10-year average earnings as of last September — below the low point reached during the 1997-1998 Asian financial crisis. In the third quarter, IIF said global investors sold $40 billion in emerging market assets, about evenly split between stocks and bonds, marking the largest quarterly outflow since 2008. "We have had this love affair with emerging markets, but it's over," **Brown Brothers Harriman** market strategist Marc Chandler told the *Financial Times* last November.

At **Aberdeen Asset Management** net outflows for the full year ending September 2015 were £34 billion ($52 billion), reflecting difficulties in its emerging markets business. Chief Executive Martin Gilbert acknowledged that "current weakness" in those markets "may have some way to run," but expressed confidence that the "long-term fundamental attractions ... remain compelling for patient investors." The tough environment and a flagging share price led the British press to report the company had quietly begun talks with potential suitors — a report the Scottish firm forcefully refuted. London-based emerging markets bond specialist **Ashmore Group** saw its AUM drop 13% between the June and September quarters, the result in equal measures of net outflows and performance, though the company said "negative market sentiment" regarding "certain emerging markets experienced in the later part of the quarter has provided good opportunities." At **Franklin Resources**, the iconic Templeton Global Bond fund, a major investor in emerging markets, was down more than 6% year-to-date through September, with AUM having declined by $10 billion to $58 billion. All told, EPFR Global figures global bond funds have a hefty 16% of their assets in emerging markets securities.

In the U.S., 2015 proved challenging for asset managers after three straight years of double-digit returns on the Standard & Poor's 500 index, as volatility spooked many investors and see-sawing markets tempered asset growth. According to the Investment Company Institute, U.S. equity funds experienced net outflows of $113 billion in the first three quarters of 2015, with U.S. equity fund assets down 3.5% from the year-earlier period. At the same time, global equity funds had net inflows of $103 billion, although assets were down 4.1%. Bond fund flows were up slightly while assets were down slightly from September 2014. **BlackRock** mirrored the larger trend, as its mountainous asset base was flat in the year through September 2015 at $4.5 trillion (although its leading **iShares** ETF business recorded solid net inflows). **Affiliated Managers Group**, a proxy for a range of investment styles given its large affiliate network, had $593 billion in AUM in the third quarter, a small decline from the year earlier. **Artisan Partners Asset Management**, a mid-size Milwaukee-based equity manager, experienced a 9% drop in AUM in the year through September 2015.

Industry deal-making was another story, however. Coming off a banner year in 2014, 2015 proved to be another strong year with $23.5 billion in asset management transactions and the larger M&A environment registering a record $4.6 trillion in deals announced by December, according to Thomson Reuters. The private equity industry, as a whole sitting on more than $1.3 trillion in "dry powder," accounted for several of the largest transactions. Of most note, **General Atlantic** and **Warburg Pincus** joined with **Santander** and **UniCredit** in a complex transaction that combined the asset management

Record Breaker

MERGERS & ACQUISITIONS WORLDWIDE

Number of announced deals	*2015 (vs. 2014)*
Worldwide	42,313 (+ 0.2%)
U.S.	9,962 (- 1.6)
Europe	14,786 (+ 2.9)
Asia-Pacific (ex-Japan)	11,250 (+ 0.4)

Value of announced deals ($ billions)	*2015 (vs. 2014)*
Worldwide	$4,748 (+ 42.2%)
U.S.	2,344 (+ 64.3)
Europe	907 (+ 7.7)
Asia-Pacific (ex-Japan)	1,143 (+ 62.7)

Source: Thomson Reuters

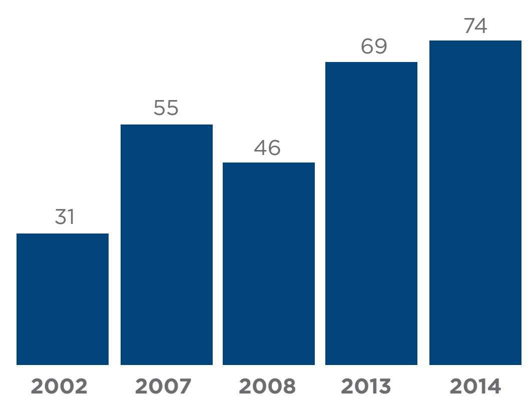
Investment Management Transactions

	2011	2012	2013	2014	2015
Majority Equity	119	127	129	126	**139**
Minority Equity	15	29	20	14	**21**
Management Buyout	10	13	10	3	**6**
Total	**144**	**169**	**159**	**143**	**166**
Total Transaction Value ($B)	$10.3	$12.6	$14.8	$26.4	**$23.5**
Total AUM Changing Hands ($B)	$756	$1,133	$1,636	$1,980	**$1,895**

Source: Berkshire Capital Securities LLC

Growing Pie

GLOBAL AUM ($ TRILLION)



Source: Boston Consulting

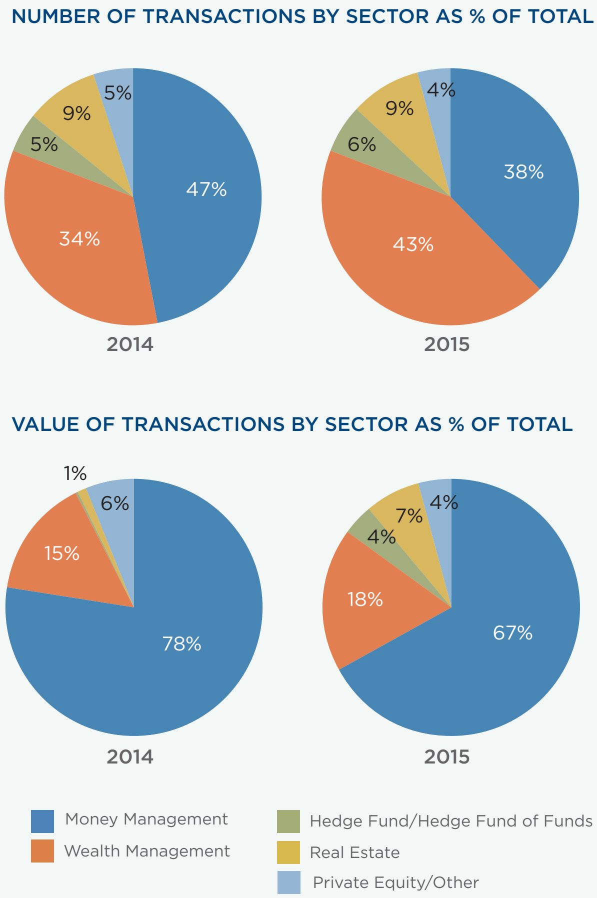
businesses of the two banks and left the four players with varied interests in the new structure that was formed. The new holding company, **Pioneer Investments**, has €400 billion ($435 billion) in AUM and was valued at around €5.4 billion by the terms of the transaction. In 2013, General Atlantic and Warburg paid €1 billion for a 50% interest in Santander's asset management arm. Two other U.S. private equity firms, **TA Associates** and **Reverence Capital**, also teamed up in the $1.15 billion purchase of **Russell Investments**' asset management business from the **London Stock Exchange**. In 2014, LSE paid $2.7 billion for Russell to gain the firm's large and higher-margin indexing business, which it retains.

TA Associates factored into two other U.S. deals last year on both sides of the table, acquiring the rest of the interest it did not own in small- and mid-cap manager **Keeley Asset Management** while selling its stake in value investor **First Eagle Investment Management** to private equity firms **Blackstone Group** and **Corsair Capital**. The latter deal valued First Eagle (AUM: $100 billion) at $4 billion. Blackstone also took a stake in hedge fund **Magnetar Capital**, a specialist in event-driven, energy and fixed income investments. Another of New York's major private equity groups, **KKR & Co.**, added to its hedge fund portfolio by acquiring a minority stake in one of Europe's largest hedge funds, **Marshall Wace**. Three other private equity firms — **Genstar Capital**, **Hellman & Friedman** and **Lightyear Capital** — were active in the U.S. wealth management sector, acquiring **Mercer Advisors**, **Edelman Financial Services** and **Wealth Enhancement Group**, respectively (all three sellers were also from the private equity industry).

The tepid global economy and diminished trade didn't deter companies from crossing borders in search of partners, with Canadian financial firms continuing their aggressive post-financial-crisis expansion. Even as the currency weakened against the greenback, Canadians focused on the U.S. last year, led by **Sun Life Financial**. The Toronto-based insurer, which has been expanding its third-party asset management business, made two acquisitions for U.S. fixed income managers (**Ryan Labs Asset Management** and **Prime Advisors**), along with the C$560 million ($455 million) purchase of a Toronto real estate advisor with assets on both sides of the border, **Bentall Kennedy Group**. In a bank transaction with a significant wealth management component, **Royal Bank of Canada** paid $5.4 billion for **City National Corp.** of Los Angeles, while Montreal's **Fiera Capital Corp.** continued its growth-via-acquisition strategy with a deal for New York fixed income shop **Samson Capital Advisors**. An end-of-year deal involving a Canadian seller saw Japanese financial services giant **Nomura** pay about $1 billion for **CIBC**'s 41% interest in Kansas City-based **American Century Investments**. Toronto-based CIBC said its inability to gain "a path to control" drove the profitable sale.

Although much of the post-crisis restructuring of Europe's asset management industry has already taken place, Switzerland's **Union Bancaire Privee** was able to capitalize on **Royal Bank of Scotland**'s turn to the domestic market to buy its attractive **Coutts** international wealth management business. UBP's purchase marked the second opportunistic deal it has made since 2013 at the hands of a bailed-out U.K. financial firm (the other being for **Lloyds Banking Group**'s Swiss wealth business). Although deal activity within China was quiet last year, aggressive Shanghai-based conglomerate **Fosun** gained a foothold in Europe's asset management market by paying €210 million ($230 million) for German private bank **Hauck**

Who's Selling



Source: Berkshire Capital Securities LLC

& Aufhauser. Within India, there were several joint venture divestitures by European banks while **Nippon Life Insurance** doubled down on the market by raising its stake in the nation's largest asset manager, **Reliance Nippon Life Asset Management**. In a transpacific deal, **Mizuho Financial Group** bought a minority stake in **Matthews International Capital Management**, a prominent San Francisco-based Asian investor.

Two cross border deals by American firms sought to capitalize on institutional demand for infrastructure investments: **Legg Mason**'s purchase of a 75% stake in Australia's **RARE Infrastructure**, a specialist in global listed infrastructure investments; and **Hunt Companies**' purchase of a 50% interest in London-based **Amber Infrastructure Group**, which develops and finances social infrastructure, transportation, renewable energy and urban development projects. As investors of all stripes gravitate to index-driven products, a number of deals were similar to those infrastructure plays in focusing on active managers that can offer uncorrelated or lower-risk products, play into investment trends, or hold a greater potential to deliver alpha. These include **Goldman Sachs'** acquisitions of socially responsible investor **Imprint Capital** and liability specialist **Pacific Global Advisors**; **Janus Capital Group**'s purchase of a majority interest in global unconstrained bond manager **Kapstream Capital**; and **Lebenthal Holdings'** purchase of a minority share in small-cap boutique **AH Lisanti Capital Growth**.

Familiar buyers were active last year, including **Affiliated Managers Group**, which made five investments, four of which involved hedge funds and wealth managers, including Geneva-based **Systematica Investments** and San Francisco's **Baker Street Advisors**. Serial U.S. wealth buyers **Focus Financial Partners**, **Mariner Wealth Advisors** and **United Capital Financial Advisers** were also active. **Henderson Group** of the U.K. made three deals in Australia, bringing its Asia-Pacific AUM to 11% of total AUM. Aberdeen Asset Management, **American International Group**, **First Republic Bank**, **Man Group**, **Raymond James**, **Standard Life** and **Stifel Financial Corp.** were among the other major buyers of asset managers last year.

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For decades, emerging markets have been the holy grail for investors seeking outsized returns, albeit with the attendant risks inherent in such places. Within that pantheon of fast-growers, no market stood taller than China. Since the start of its economic reforms in 1978-79, the country has galloped through three separate decades with annual double-digit economic growth rates as predictable as a metronome. But like any entity that starts small and gets very big, the law of averages eventually catches up. China's neighboring model for economic development — the "Asian Tigers" (Hong Kong, Singapore, South Korea and Taiwan) — discovered that years ago.

China now faces the challenge of continuing growth in the context of a more mature economy requiring greater stimulus from domestic consumption as opposed to exports fueled by cheap and abundant labor. Moreover, in the years ahead China will confront an aging population that generally portends slower growth, as Japan has discovered. (In a bid to tackle the aging trend, Beijing announced in October that it would lift its long-established one-child policy.) In 2015, China's transition left many commodity-driven emerging markets in the slow lane, given the nation's outsized impact on their economies. Brazil, for example, was sending half its commodity exports to China as overall exports to that market grew fourfold between 2007 and 2011 to top $40 billion. With those days having passed, Latin America's giant is feeling the pain.

For asset managers specializing in emerging markets, 2015 was a year they will doubtless be happy to leave behind while the general soft tone of global financial markets put a damper on the results of broad-based asset managers as well. Still, the industry has recovered nicely from the financial crisis. According to Boston Consulting's latest industry survey, AUM worldwide rose 8% to a record $74 trillion in 2014 while profits climbed 7% to match their historic peak of $102 billion. Operating margins remained steady from 2013 at 39%, up seven percentage points from 2009, although a couple of points below the record level achieved prior to the financial crisis.

Who's Buying

	2011	2012	2013	2014	2015
Money Manager	34	36	36	31	**45**
Financial	26	24	32	16	**27**
Wealth Manager	28	23	13	21	**20**
Bank	15	26	24	17	**19**
Securities Firm	9	9	9	14	**17**
Insurance Company	2	13	9	16	**13**
Real Estate Manager	4	5	4	7	**7**
MBO	10	13	10	3	**6**
Trust Company	3	2	6	4	**4**
Other	13	18	16	14	**8**
Total	**144**	**169**	**159**	**143**	**166**

Source: Berkshire Capital Securities LLC

At the same time, this remains a time of change and challenges. Boston Consulting data show net new assets were 1.7% of total prior-year AUM, below the pre-crisis level that ranged over several years from 4% to 5.7%. Fees also remain under pressure while costs are climbing, in large part due to greater regulatory demands imposed by the Securities & Exchange Commission in the U.S. and the Markets in Financial Instruments Directive (MiFID) in Europe.

In addition, and as we note in the Money Management section, asset management consultant Casey Quirk quantifies in a new paper the ongoing and historic shift the industry is undergoing from traditional active investing to passive and new active strategies. The consultant projects $2 trillion in outflows worldwide from traditional active strategies over the next five years and a shift of $4 trillion into new active and $1 trillion into passive strategies. These new active strategies include multi-asset-class solutions, liquid alternatives and unconstrained fixed income. In line with that, Boston Consulting notes that the share of AUM represented by traditional active products has declined from 59% to 39% since 2003, while passive products have added six points to 14% and solutions and alternatives have doubled to 13% and 11%, respectively. In Casey Quirk's survey of asset managers, 28% cited acquisitions, subadvisory relationships and partnerships, and lift-outs of established teams as three means to adapt to shifting demand.

When you add up regulatory pressures, the need for specialized products, and the generational issues facing many independent firms, we would anticipate a continuation of the robust deal-making environment we have seen at work in the past couple of years. As potential sellers weigh those options, and as buyers consider the range of targets, we stand ready to assist in both analyzing the value of businesses and helping to secure mutually profitable relationships.

Money Management

The money management industry is only in the middle rounds of an historic shift from traditional active investing to passive and new active strategies, according to asset management consultant Casey Quirk. In a white paper released last July, Casey Quirk projected that over the next five years there will be $2 trillion in outflows worldwide from traditional active strategies concurrent with a shift of $4 trillion into new active and $1 trillion into passive strategies. The bottom line: "Investment management firms will increasingly look externally at acquisitions, partnerships and hiring to obtain critical products skills."

In the paper, "New Arrows for the Quiver: Product Development for a New Active and Beta World," Casey Quirk says the introduction of new strategies such as multi-asset-class solutions, liquid alternatives and unconstrained fixed income will be critical to the success of money managers. Additionally, investors' willingness to tap into products with less than three-year track records "has risen dramatically, making product development increasingly significant." Yet, according to 15 years of data reviewed by Casey Quirk, companies have a generally negative track record for developing new products that achieve meaningful scale: Less than one-quarter of such products have gained more than $1 billion in assets within 10 years.

Noting that "firms are more willing than ever to look outside their walls for new talent," Casey Quirk writes: "Product development will be a substantial catalyst to an ongoing boom in M&A activity." The need for "highly differentiated investment skills" may be particularly profitable for smaller asset managers, creating a "seller's market" for such firms, the consultant writes. In Casey Quirk's survey of asset managers, 28% cited acquisitions, subadvisory relationships and partnerships, and lift-outs of established teams as three means to develop products. More than half said they would achieve that goal by leveraging internal capabilities.

The themes outlined by Casey Quirk played out in a number of money management deals last year, including **Goldman Sachs**' acquisitions of socially responsible investor **Imprint Capital** and liability specialist **Pacific Global Advisors**; **Lebenthal Holdings**' purchase of a minority share in small-cap boutique **AH Lisanti Capital Growth**; **Nasdaq**'s acquisition of an ETF and smart beta firm, **Dorsey Wright & Associates**; **Raymond James**' purchase of ETF asset allocation specialist **Cougar Global Investments** *(see Cross Border)*; **Aberdeen Asset Management**'s acquisition of emerging and frontier markets investor **Advance Emerging Capital**; **Janus Capital Group**'s purchase of a majority interest in global unconstrained bond manager **Kapstream Capital**; **Sun Life Financial**'s acquisitions of two liability driven investment firms, **Prime Advisers** and **Ryan Labs Asset Management**; and **Legg Mason**'s assumption of a majority stake in **RARE Infrastructure**, a specialist in global listed infrastructure investments *(see Cross Border for Janus, Sun Life and Legg Mason deals)*.

The leading U.S. deal in the sector involved a traditional fund target, however, as private equity firms Blackstone Group and Corsair Capital teamed up to buy a majority stake in First Eagle Investment Management

The leading U.S. deal in the sector involved a traditional fund target, however, as private equity firms **Blackstone Group** and **Corsair Capital** teamed up to buy a majority stake in **First Eagle Investment Management**. The acquisition was done via First Eagle holding company **Arnhold and S. Bleichroeder Holdings** and valued the firm at $4 billion, suggesting a price above $2 billion. The two private equity firms were joined in the investment by an unnamed number of their clients. The transaction includes the purchase of all shares held by Boston's **TA Associates**, which took a minority stake in First Eagle in 2007, when the firm had about half the $100 billion in assets it currently manages. Since 2014, TA has divested its interests in three other asset managers, including **DNCA Finance** last year.

Bridget Macaskill, president and CEO of First Eagle, said the deal addresses the liquidity needs of shareholders while "achieving our primary goals of remaining independent, preserving our investment-centric culture, and increasing employee ownership." First Eagle has established a reputation as a prudent value investor with an eye on downside risk, a strategy that can cause its funds to lag in bull markets. For example, the firm's largest fund, First Eagle Global, had 17% of its $50 billion in assets parked in cash in the second quarter of 2015. "We view our key asset as temperament," fund manager Matthew McLennan told *Barron's* in December 2014. "In ebullient markets like the one we've seen, we are happy to be a net seller of overpriced securities." In a similar transatlantic megadeal involving the teaming of two private equity firms, **General Atlantic** and **Warburg Pincus** joined hands with the parents of **Pioneer Investments** and **Santander Asset Management** to merge the two asset managers into a more formidable global firm *(see Cross Border)*.

As it was selling its position in First Eagle, TA Associates acquired a majority stake in Chicago small- and mid-cap manager **Keeley Asset Management** from Keeley parent **Joley Corp.** The deal, which includes equity stakes for "key employees," followed the death of Keeley President and founder John Keeley, Jr., which triggered a change of control to his wife and Keeley President Kevin Keeley. TA has been engaged with Keeley since 2008, when it became a minority investor. At that time, Keeley had more than twice the $4 billion in assets it now manages. Keeley's dominant fund is Small Cap Value (AUM: $2.2 billion), which targets investments in undervalued and diverse U.S. companies that have market capitalizations below $3.5 billion.

Following on the heels of a record year for transactions involving passive investment firms in 2014, Nasdaq accounted for the largest such deal last year by paying $225 million for Dorsey Wright & Associates. By purchasing the established Virginia firm, Nasdaq extends its existing presence in the index and ETF marketplace, and in particular the fast-growing smart beta space. DWA adds 17 ETF indexes and $6 billion in assets under management and administration, including smart beta products, to Nasdaq's 69 licensed smart beta ETFs. Nasdaq said it will become "one of the largest providers of smart beta indexes," with $45 billion in assets benchmarked against such indexes. DWA President Tom Dorsey said the deal "will allow us to grow significantly, while continuing to create products and strategies that meet the needs of our clients." As part of the transaction, Nasdaq acquired the majority share held by middle-market private equity firm **Falfurrias Capital Partners**, which made the investment in 2011. The deal follows a similar but much larger transaction made in 2014 by another exchange, the **London Stock Exchange**, which acquired index provider **Russell Investments**.

OppenheimerFunds also acquired a smart beta provider, Philadelphia-based **VTL Associates**, with $1.7 billion in institutional AUM across eight RevenueShares branded ETFs and separate accounts. OppenheimerFunds praised VTL's "distinctive approach to smart beta," which employs a proprietary methodology to weigh factors such as revenue and dividends, as opposed to market capitalization, to "lower exposure to overvalued companies." Oppenheimer said customers are demanding a greater array of investment options and it was "expediting" the process of meeting that demand "with a strategic acquisition." VTL was started in 2004 by a former Philadelphia police detective and Smith Barney managing director, Vincent Lowry. In 2008, Lowry launched the ETF business, which includes large-, mid- and small-cap funds, as well as financial sector and "ultra" dividend funds. Lowry said the link to Oppenheimer will expand VTL strategies across the retail, wealth and institutional channels.

With its acquisition of Imprint Capital, Goldman Sachs adds capabilities in another growing area, socially responsible investment. Based in San Francisco, Imprint has some $550 million in AUM and was described by Goldman as an "innovator in developing investment solutions that generate measurable environmental, social and effective governance (ESG) impact alongside a financial return." Just a month prior to the deal, Goldman named a managing director, Hugh Lawson, to a new position as head of ESG investing. The company said the acquisition "affirms our strong commitment to ESG and impact investing." For its part, 8-year-old Imprint, whose assets grew more than 50% in the two years prior to the Goldman deal, cited its new parent's "exceptional resources." Although estimates of ESG assets vary widely, the sector has been growing rapidly, driven by demand from institutions, as well as wealthy individuals.

Money Management Transactions

	2011	2012	2013	2014	2015
Number of Transactions	58	67	61	67	**63**
Combined Value ($B)	$5.8	$7.3	$9.0	$20.5	**$15.8**
Total Seller AUM ($B)	$450	$762	$1,061	$1,430	**$1,408**
Average Deal Size ($M)	$100	$109	$148	$306	**$252**
Average Seller AUM ($B)	$7.8	$11.4	$17.4	$21.3	**$22.4**

Source: Berkshire Capital Securities LLC

Goldman also acquired Pacific Global Advisors, a customized solutions provider for large pension plans. Launched as a unit of **J.P. Morgan** in 2005 and acquired by California's **Pacific Life Insurance Co.** in 2011, Pacific Global focuses on risk management and has $18 billion in assets under supervision. In 2006, Pacific Global CEO David Oaten successfully obtained an opinion from the U.S. Department of Labor regarding defined benefit liabilities that spurred the use of liability-driven investing. Goldman said the deal "reinforces our focus on our investment outsourcing solutions business, and in particular our pension practice." Goldman has a large outsourced CIO business and in recent years has acquired two stable value providers to enhance its defined contribution business.

In the shifting money market space, **BlackRock** acquired $87 billion in such assets from **Bank of America**, giving it $370 billion in cash management assets. BoA will continue to handle distribution while BlackRock manages the assets. The deal underlines the squeeze on money market managers from low interest rates and new regulations and the resulting pressure to gain scale. The two firms said the deal combines BlackRock's global cash management expertise with BoA's strong client relationships. **Federated Investors** made three acquisitions last year to bolster its large money market business, adding a total of more than $8 billion in assets that were wrapped into similar Federated funds. The largest involved $7 billion in AUM from **Reich & Tang Asset Management**, a subsidiary of **Natixis** that focuses on liquidity strategies. Reich & Tang said it is exiting the money market fund business to focus on its FDIC-insured sweep programs for banks and brokerages. The other two transactions involved $1.1 billion in assets from **Huntington National Bank** of Ohio, consisting primarily of Treasuries, and $100 million in Ohio tax-free money market assets from **Touchstone Investments** of Rhode Island. Although Federated has expanded its equity and fixed income businesses, money market funds still account for 70% of total assets. Last year, Federated began the process of restructuring its money market funds to be in compliance with new SEC regulations announced in 2014. Those rules, to be implemented through 2016, include floating net asset values and withdrawal limits during financial crises for institutional accounts.

In the boutique arena, Lebenthal Holdings bought a minority share in AH Lisanti Capital Growth, a small-cap investor with $290 million in AUM. The deal involves a rare pairing of two firms run by women: Lebenthal CEO Alexandra Lebenthal and AH Lisanti's majority owner Mary Lisanti. Following the deal, AH Lisanti began to operate under the **Lebenthal Lisanti Capital Growth** name. Lebenthal told MutualFundWire the deal was "a real opportunity to create a powerhouse with women-owned managers," while Lisanti called her firm a "four-star fund that we really haven't marketed." Established in 2003 and based in New York, AH Lisanti pursues a "thematic concentration" strategy designed to deliver "above average risk-adjusted returns with higher alpha and beta" than the Russell 2000 index. At one time the most recognizable name among retail investors in the municipal bond market, Lebenthal has undergone significant change since the turn of the century, having been acquired in 2001 by brokerage Advest Group, which was in turn bought by **Merrill Lynch** in 2005. Merrill quickly retired the Lebenthal name, which was revived by Alexandra Lebenthal when she started up her firm in 2007. She has since built it into a wealth manager and corporate debt and equity underwriter.

A second deal with a small-cap target involved **Emerald Asset Management** acquiring 11-year-old **Elessar Investment Management**. Like Lisanti, Elessar is a boutique that pursues a concentrated strategy involving a value-oriented portfolio of 40 to 60 companies. Emerald praised Cleveland-based Elessar for its "rigorous and disciplined bottom-up fundamental research analysis" that it said is "a natural fit with Emerald's research-driven approach." Elessar's fund will be rebranded under the Emerald name. Emerald, based in Pennsylvania, is an institutional and retail manager with $3.2 billion in AUM. As investors have gravitated to indexes and ETFs over active management, they have maintained a measure of confidence in the ability of small-cap active managers to outperform indexes in a part of the market viewed as less "efficient" than the large- and mid-cap spaces.

American International Group, most notable for divesting some $70 billion worth of assets since the financial crisis, stepped into the marketplace last year to buy a fixed income shop, **First Principles Capital Management** (AUM: $10 billion). As part of the deal, First Principles CEO Douglas Dachille was named executive vice president and chief investment officer of AIG, replacing the retiring CIO. Co-founded in 2003 by Dachille and based in New York, First Principles provides customized solutions to institutions, family offices and private clients. Although the deal puts AIG back in the business of managing third-party assets, Dachille's primary function will be to oversee AIG's internal portfolio. In the 1990s, Dachille and AIG President and CEO Peter Hancock worked together in the global derivatives group at J.P. Morgan. Along with other investors, Dachille and Hancock later attempted to acquire **Gen Re Securities** from **Berkshire Hathaway**. AIG praised Dachille for his "track record in all aspects of asset management, structured finance and risk management at global companies."

In the stable value sector, Cincinnati-based life insurer **Ohio National Financial Services** purchased the remaining interest it did not own in **Fiduciary Capital Management** of Connecticut. Ohio National, with more than $41 billion in AUM, acquired its original majority stake in the stable-value manager in 1998. Stable value funds accounted for $781 billion in assets in U.S. defined contribution plans, or more than 11% of the total, as of 2015 third quarter, according to the Stable Value Investment Association. In its second deal in as many years, Tennessee's **BPV Capital Management** bought **Cain Brothers Asset Management**, an institutional firm based in Florida. Cain Brothers manages $1.6 billion, mainly in fixed income, for institutional investors in separately managed accounts and private funds. BPV managed $270 million in four mutual funds prior to the deal. The seller was company parent **Cain Brothers & Co.**, a New York investment bank specializing in the health care industry. BPV, founded in 2001, has evolved from a family office into a registered investor advisor and more recently a mutual fund manager. BPV said it can provide Cain with marketing, distribution and risk management support. In 2014, the company acquired New Jersey-based Skyview Investment Advisors.

In its second deal in as many years, Tennessee's BPV Capital Management bought Cain Brothers Asset Management, an institutional firm based in Florida

A second deal featuring a Tennessee buyer saw **Highland Capital Management** of Memphis buy Florida-based **ICC Capital Management**, an institutional and wealth manager. The transaction brings Highland's AUM to $2.8 billion. Steve Wishnia, Highland president and managing director, said the deal combines two firms "with complementary areas of expertise" while increasing the client base and investment product line. Like ICC, Highland has offices in Orlando, Fla., and Mobile, Alabama. Wishnia ran Highland for many years as a vehicle to manage the wealth of Plough Chemical founder and Schering-Plough Chairman Abe Plough; he bought the firm in 2011 from parent **First Horizon National** before selling to **Argent Financial Group** in 2013. Based in Louisiana, Argent Financial Group cut several deals for Southern and Southwestern asset managers in 2013 and 2104. Last year, Argent also merged with Oklahoma City-based **Heritage Trust**.

Although deals for structured products specialists have tailed off from the period immediately after the financial crisis, there were two additional such transactions in the U.S. last year involving private equity buyers. In one, **Sankaty Advisors**, the credit affiliate of **Bain Capital**, bought four collateralized loan obligation contracts (AUM: $1.6 billion) from **Regiment Capital Advisors**, a credit asset manager. Sankaty is an established credit manager with more than $6 billion in CLO assets prior to the deal and some $26 billion in AUM in total. The second deal saw **Benefit Street Partners'** acquire **TICC Management**. BSP, the credit investment arm of **Providence Equity Partners**, said it "intends to expand TICC's investment strategy to primarily focus on private debt investments." TICC's current portfolio comprises CLOs and syndicated loans. BSP and affiliates manage more than $10 billion in assets across a broad range of credit strategies such as levered loans, high yield, structured credit, and private/opportunistic debt. TICC Management was the investment advisor of publicly traded **TICC Capital Corp.** (**Rothschild Merchant Banking** acquired another credit manager, **West Gate Horizons Advisors**; *see Cross Border*.) Through mid-November 2015, a total of $103 billion in CLOs had been issued worldwide, primarily in the U.S., a drop from the same period in 2014, according to S&P Capital IQ.

In Canada, wealth manager **Richardson GMP** acquired fund manager **CQI Capital Management** from parent **GMP Capital**, which also holds a non-controlling interest in Richardson. A retail and institutional manager, CQI pursues a "macro-driven, quantitatively informed investment process." For example, its Equity Opportunities fund focuses on small- and mid-cap North American firms and employs long/short and sector-based strategies based on a reading of business, profit and market cycles. "This is an opportunity to gain access to really great money managers," Richardson CEO Andrew Marsh told the *Toronto Globe and Mail*. "We will be able to provide these managers with one of the biggest independent distribution channels in Canada." Richardson, which plans to revamp CQI as a third-party asset management platform focused on alternatives, said it had already engaged in discussions with U.S. and European asset managers about launching products on the CQI platform. Richardson doubled its assets in 2013 to C$28 billion ($21 billion) with the purchase of **Macquarie Group**'s Canadian retail business, with assets at about the same level last year.

In the U.K., **Caledonia Investments** acquired a 94% stake in **Seven Investment Management**, a London fund manager and private client firm with £9.5 billion ($15 billion) in assets under management and administration. Caledonia, a London investment trust controlled by the wealthy Cayzer family of the U.K., bought the shares from insurers **Aegon** and **Zurich Insurance**. The deal values the firm at more than £100 million, including debt. Started up in 2002, Seven IM manages an open architecture platform and also runs its own branded funds. In explaining the acquisition, Caledonia cited its own "long history of investing in successful fund management businesses" and the "growing demand for multi-asset and multi-manager funds." Caledonia's holdings include British wealth manager and bank **Close Brothers**.

Aberdeen Asset Management added to its emerging and frontier markets capabilities by acquiring London-based Advance Emerging Capital. Established in 1996, AEC has a value orientation and manages more than £400 million in assets in long-only fund of funds vehicles, primarily closed-end. In its closed-end Advance Frontier Markets fund, for example, AEC has 61% of its assets with 10 funds, including the **VinaCapital** Vietnam Opportunity and **Ashmore** Middle East Equity funds. AEC had been majority-owned since 2009 by **Rassmal Investments**, a Dubai-based emerging and frontier markets investor. With the addition of AEC, Aberdeen will manage 33 closed-end funds with £8.5 billion in assets. Frontier market funds suffered net outflows of nearly $1 billion in the first three quarters of 2015. Aberdeen, which was negatively impacted last year by its own substantial emerging markets business, made four other bolt-on acquisitions in 2015 *(see Hedge Funds/Private Equity and Wealth)*.

In another small U.K. deal, **City Financial** acquired £200 million in multi-asset funds from **Investec Wealth & Investment**, marking its second deal in as many years. In 2014, the London firm acquired the Iveagh fund arm of the Guinness family office, also amounting to £200 million in assets. City Financial, led by former executives with **Invesco Perpetual**, offers a range of traditional and alternative strategies. Within France, Natixis reportedly paid €549 million ($630 million) for 71% of DNCA Finance, a wealth and institutional manager with €14.6 billion in AUM. Natixis said the deal furthers the "strategy of expanding its multi-affiliate model in Europe and fueling our growth in retail markets." DNCA, which pursues long-only and absolute return European equity and eurozone bond strategies, has offices in several major European cities. Among the sellers was TA Associates. In Italy, **Poste Italiane**, the national post office, paid €210 million for a 10% stake in **Anima**, one of the nation's leading asset managers. The postal firm, which concluded an initial public offering last year, cut the deal as part of an effort to expand investment offerings in its dominant financial services business.

In Japan, **Mizuho Financial Group** and **Dai-ichi Life Insurance** announced a merger of their respective asset management groups "to jointly build an asset management business platform that is number one in Asia as well as Japan both in quality and size." Mizuho will assume a 51% voting interest and around a 70% economic interest in the joint venture, which will have ¥54 trillion ($450 billion) in AUM. The deal comes amid efforts by the Japanese government to encourage generally risk-averse individuals and institutions to embrace a broader sweep of asset classes. For example, Japan's $1.1 trillion public pension fund has set aggressive targets to double investments in stocks to 50% of the portfolio and lower holdings of Japanese bonds from 60% to 35%. To lead that transition, the fund hired private equity veteran Hiromuchi Mizuno as executive managing director and chief investment officer. Other Japanese pension funds are pursuing similarly aggressive investment strategies. Last year, Mizuho also acquired a 16% stake in San Francisco-based Asian investor **Matthews International Capital Management** *(see Cross Border)*.

Wealth Management

High net worth investors (HNWIs) entered 2015 with a little extra spring in their step, as stock allocations in their portfolios passed cash holdings in the first quarter. Equities rose two percentage points in the quarter to nearly 27% to become the leading asset class in HNWI portfolios, according to the 2015 World Wealth Report from CapGemini and RBC Wealth Management. North Americans had by far the highest proportion of assets in equities, and at 34% it was a good 10 points above their peers in Europe and Asia outside Japan. By contrast, Europeans and Asians ex-Japan had nearly twice the exposure to real estate as did North Americans, with 12%.

While the report allows that the gains in equities may have been due to appreciation as opposed to additional capital, it opined that "current holdings indicate a slowly expanding appetite for risk, as HNWIs indicate they are open to equities becoming a larger part of their portfolios," although events in 2015 may have tempered some of that sentiment. On the flip side, cash declined one percentage point to drop below 26%, with individuals citing lifestyle needs and security as the primary factors in maintaining such high cash levels. Since those cash levels are significantly above model asset allocations, the report does note that they pose "a challenge to firms." One reason the report cites for that disconnect between modeling and reality is that "wealth managers may have too narrow a view of overall HNWI portfolios, only taking into consideration client assets held at the firm," with the report suggesting that managers should "discuss each client's total wealth picture, including their cash needs."

Significantly, the cash needs of clients include access to credit, particularly among those under 40 and in emerging markets. Worldwide, more than 37% of HNWIs said the availability of credit "is a critical factor when making decisions about initiating relationships with wealth management firms" while 60% consider it a "key" factor. That credit is primarily used for investments, including real estate. With the financial crisis receding, those discussions can at least occur in a more positive environment: The report indicates that close to three-quarters of HNWIs are satisfied with their managers and firms, a significant turnaround from the period immediately after the crisis. Those with the longest relationships (at least 21 years) are most satisfied (84%), while North American HNWIs expressed more satisfaction with their managers than their peers in any other region.

Amid those broad signs of improvement in client investment outlook and their attitude toward managers, the industry itself experienced an active 2015 for deals, broadly in line with the numbers in recent years. The largest transaction with a wealth-related component was a North American affair in which **Royal Bank of Canada** paid $5.4 billion for bank and wealth manager **City National Corp.** of Los Angeles *(see Cross Border)*. On the U.S. domestic front, **Affiliated Managers Group** was the most notable buyer, adding a total of $13 billion in assets in its wealth business via similarly sized acquisitions of two high-profile and independent advisors. AMG was joined in the circle of larger deals by **First Republic Bank**, which paid $115 million for an independent firm, **Constellation Wealth Advisors**. In the mass affluent market, retirement specialist **Financial Engines** paid $560 million for **The Mutual Fund Store**.

Two private equity firms, **Hellman & Friedman** and **Lightyear Capital**, also announced deals for large to mid-sized targets. The numbers dropped off from there, with the next largest spate of transactions involving targets in the $1 billion asset range. There, buyers included Kansas-

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based **Mariner Wealth Advisors**, which took a majority stake in Pennsylvania's **Vantage Investment Advisors** as it continued to extend its Northeast presence; and **Silvercrest Asset Management**, which added to its hometown presence in the New York metropolitan area with the purchase of **Jamison, Eaton & Wood**.

In Europe, the continuing fallout from the financial crisis was evident in the sale by government-owned **Royal Bank of Scotland** of its **Coutts** international wealth management business to **Union Bancaire Privee** of Switzerland. Another British firm that's been restructuring, Barclays, sold its U.S. wealth business to **Stifel Financial Corp.** *(see Cross Border for RBS and Barclays deals)*. Two consolidating markets — Switzerland and the U.K. — experienced multiple domestic deals, led by **Notenstein Private Bank** acquiring the client relationships and staff of **Bank La Roche & Co.** and **Towry** paying £120 million ($180 million) for **Ashcourt Rowan**.

In the U.S., the two acquisitions by Affiliated Managers Group brought to five the number of affiliates in its 4-year-old **AMG Wealth Partners** subsidiary. In last year's second-quarter earnings call that followed both deals, Nate Dalton, AMG president and chief financial officer, said the wealth business was now at a scale ($30 billion in AUM) where "you can start to leverage to improve and provide additional opportunities to the businesses" and pointed to the "opportunities to build bridges" between its fund affiliates "and the excellent manufacturing capabilities that they have and the Wealth Partners affiliates." Dalton noted that "there is a continuing pipeline of firms equivalent in scope and scale that we are looking at."

In the first transaction, AMG took a majority stake in **Baker Street Advisors**, one of the larger independent San Francisco-area firms, with $6 billion in AUM and a clientele that reaches into Silicon Valley. The firm was founded in 2003 by a veteran wealth manager at **Deutsche Bank** and **Goldman Sachs**, Jeff Colin, and focuses on "simplicity, cost-effectiveness and tax-efficiency." Colin was also a co-founder of the investment advisory group at AMG's second acquisition, **myCIO**. As with Baker Street, AMG assumed a majority stake in the Philadelphia-based firm, which has $7 billion in assets. AMG cited myCIO's "unique focus on corporate executive financial and retirement planning" in explaining the purchase. MyCIO referred to the ability to retain its independence and "elevate our key next generation of advisors to partners." AMG also made minority investments in three firms with hedge fund capabilities in whole or part *(see Hedge Funds/Private Equity)*.

First Republic's acquisition of Constellation Wealth Advisors added $6.1 billion in assets and is a "perfect fit with our client base, geographic footprint and service-based culture," as Katherine August de-Wilde, president and director at First Republic, told analysts during a 2015 second-quarter earnings call. First Republic has total wealth assets of $58 billion, half managed, and 15,000 clients. Established in 2007 as a multi-family office by former executives from **Citigroup**'s family office division, Constellation has offices in New York and the San Francisco Bay Area, matching two key markets for First Republic (which is headquartered in San Francisco). As part of the deal, Constellation partners signed long-term employment contracts. For its well-heeled clients, Constellation is avoiding bonds at the moment, with Chief Investment Officer Sam Katzman telling *Barron's* last year he considers the class "almost uninvestible .... a no-return investment at this point." The firm is a believer in alternatives, with hedge funds comprising 30% of some of its wealthier clients' portfolios.

Lightyear Capital took its majority stake in Minnesota's **Wealth Enhancement Group** by purchasing the shares from another private equity firm, **Norwest Equity Partners** of Minneapolis. Established in 1997, WEG has $4.7 billion in assets and 10,000 clients in 40-plus states, with an average portfolio of around $500,000. Assets have doubled since 2007, when Norwest made its investment. Lightyear, which said it had been exploring opportunities in the wealth segment "for many years," praised WEG's ability to "provide family-office-quality financial planning and advice" and said that "compelling business proposition" made the firm ripe for expansion. WEG said it "looked forward to continuing our strategic plan of adding independent financial advisory firms ... and utilizing our capabilities to help them grow." New York-based Lightyear invests in middle-market North American financial services companies.

A second deal featuring a private equity buyer saw Hellman & Friedman acquire **Edelman Financial Services**, a high-profile mass affluent firm with $15 billion in assets and 28,000 clients across the U.S. H&F will assume ownership with Edelman senior management and **Lee Equity Partners**, which paid $265 million for Edelman in 2013. H&F's deal reportedly valued Edelman at around $800 million. Executive Chairman Ric Edelman told the *Wall Street Journal* that with H&F as majority owner "we're going to be able to aggressively add advisors and offices. We're also going to begin entertaining the opportunity for mergers and acquisitions." Ric Edelman said the growth strategies will focus on the 60 markets in which his popular investment-oriented radio show is broadcast. H&F will also spearhead the search for a new CEO, as Ric Edelman focuses on financial education, client services and expanding the geographic footprint. San Francisco-based H&F made the investment via its Hellman & Friedman Capital Partners VII fund.

Like Affiliated Managers Group, Kansas-based Mariner Wealth Advisors has been another active buyer, albeit of much smaller firms and with a particular focus on the Northeast of late. Last year, that included the assumption of a majority stake in Pennsylvania's Vantage Investment Advisors (AUM: $1 billion), which serves high net worth and mass affluent clients. Robert Thomas, who founded the firm in 2000 with a "card table, a phone and a pad of paper," told an interviewer in 2013 that "we would never turn someone away because of the amount of assets they have. We always have the big clients. The $10 million, $20 million, $50 million clients. We also have a bunch of $50,000." Vantage said Mariner will provide it with more resources while Mariner said Vantage's "growth orientation aligns perfectly with our goal to increase the number of clients we are able to serve in the Northeast." Mariner, part of asset manager **Mariner Holdings**, acquired three East Coast wealth managers between 2012 and 2014.

Another East Coast transaction saw New York's Silvercrest Asset Management pay $11.3 million for $1 billion in assets managed by New Jersey's Jamison, Eaton & Wood. The terms include cash, notes, stock and an earnout payment. The deal — which gives Silvercrest $19 billion in assets in total managed for individuals (targeting those with $10 million or more in investable assets) and institutions — is in line with the company's strategy of building its presence in the New York area. In Silvercrest's earnings call last March, CEO Richard Hough said the company has been in "more discussions the past year" with potential targets "than probably in the past five years." The deal marks Silvercrest's first acquisition since going public in mid-2013, although it made five acquisitions during 11 years as a private firm. In addition to New York and New Jersey, Silvercrest has offices in Boston, Los Angeles and two locations in Virginia.

In New Jersey, **Beacon Trust Co.** cut its second wealth management deal in as many years by acquiring **MDE Group**, in the process doubling assets to $2.5 billion. Established in 1988 and acquired in 2011 by New Jersey's **Provident Financial Services** as part of the bank's effort to expand its wealth management services, Beacon has seen its AUM grow from $300 million since 2009. In last year's second quarter, Provident doubled its wealth management income to $5.1 million, or 30% of noninterest income, an increase the bank attributed primarily to the MDE acquisition. "As the yield curve flattens, we will continue to seek fee income opportunities, specifically in the wealth management space," Chairman, President and CEO Christopher Martin wrote in Provident's latest annual report. A second all-New Jersey transaction saw **Peapack-Gladstone Financial Corp.** acquire **Wealth Management Consultants**, which has $2 billion in assets and a specialization advising corporate executives in a variety of relevant financial areas such as retirement plans and deferred compensation. Peapack is a small, publicly traded bank with $3 billion in assets in its private wealth management division. In 2014, fee income in the division rose 10% to $15.2 million, or 17% of total income.

In bicoastal deal with an East Coast target, **B. Riley Financial** of Los Angeles acquired New York's **MK Capital Advisors** as it expanded into wealth management. MK Capital, with $700 million in assets, had an existing relationship with B. Riley and said its clients will benefit from the new owner's investment products and services. An OTC Bulletin Board traded stock, B. Riley has an asset management arm through which it runs the B. Riley Diversified Equity fund, in addition to an investment banking unit. California-based **United Capital Financial Advisers** bought South Carolina's **McDonald, Cox & Klugh** (AUM: $415 million), one of multiple deals the firm made last year to extend its national footprint. United Capital has $15 billion in AUM and nearly 80 offices throughout the U.S. United Capital CEO Joe Duran has been pitching "financial life management" to differentiate the firm from other wealth managers, a concept that addresses life decisions, in addition to financial management. "We think people care more about maximizing their lives," Duran told Yahoo Finance. "That means sometimes you want to spend more money and make choices that might not optimize how much you have but will make sure you have the best possible life along the way." **Focus Financial Partners** added to its affiliate network with multiple investments, including three small and geographically diverse deals through its St. Louis-based partner firm, **Buckingham Asset Management**. One of the firms acquired, **Classic Capital**, is based in New Jersey and has more than $200 million in AUM. In selling his 26-year-old firm, founder Jay Leonard resolved a succession issue.

Wealth Management Transactions

	2011	2012	2013	2014	2015
Number of Transactions	56	60	57	49	**72**
Combined Value ($B)	$1.1	$3.6	$3.3	$4.0	**$4.2**
Total Seller AUM ($B)	$80	$240	$371	$412	**$264**
Average Deal Size ($M)	$19	$60	$58	$81	**$59**
Average Seller AUM ($B)	$1.4	$4.0	$6.5	$8.0	**$4.0**

Source: Berkshire Capital Securities LLC

A merging of Midwest and Northeast wealth managers saw Wisconsin-based **Bronfman E.L. Rothschild** acquire **Highline Wealth Management** of the Washington, D.C., area, adding $1.4 billion in AUM to the $2.2 billion it already managed. The firms, which have a combined presence in nine cities and 1,400 clients, said they will maintain their growth strategies in their respective geographies. The combined firm will operate under the Bronfman E.L. Rothschild name. Neal Simon, founder of Highline (in 2002) and CEO of the combined company, told the *Washington Post* that the transaction adds talent and provides more negotiating clout with firms such as **Fidelity Investments** that manage client-related administrative functions. "It sets us on a path for even more growth," he said, "enables us to go after more merger and acquisition opportunities, enables us to attract more advisors." Prior to the deal, Bronfman acquired a small Wisconsin wealth manager, **Lake Country Wealth Management**.

In a small Pennsylvania deal, **Wescott Financial Advisory Group** added $120 million in AUM to the $2.2 billion it already managed by acquiring **Goodstein & Associates**. Founder Sandra Goodstein said the deal "allows me focus on my clients — the part of the job I love the most." The acquisition is part of Wescott's effort to expand in the Philadelphia area. Another regional transaction saw **BlueCreek Investment Partners** of Alabama and **Keel Point** of Virginia merge to form a family and institutional office with $1.5 billion in AUM. The combined firm, which will be owned by client-investors and management, also has offices in Kansas City and Washington, D.C., with management suggesting it might add offices to service "their geographically dispersed clients." Assets at the two firms have quadrupled over the past eight years. In Texas, asset manager **Westwood Holdings Group** of Dallas acquired wealth manager **Woodway Financial Advisors** of Houston. Brian Casey, president and CEO of Westwood, said "establishing a presence in the Houston market has been a priority for many years." Woodway was founded in 1982 and has $1.6 billion in AUM. Publicly traded Westwood has more than $20 billion in AUM, including $3.7 billion in 12 Westwood-branded mutual funds. Westwood will pay $32 million, subject to adjustment at closing for the amount of Woodway's working capital and other financial considerations, as well as an earnout payment capped at $15 million.

With the $560 million acquisition of The Mutual Fund Store, Financial Engines adds a mass affluent advisor with nearly $10 billion in AUM and 84,000 accounts to its own 401(k) business. MFS, with its network of nationwide advisory offices, also greatly expands Financial Engines' ability to provide face-to-face contact for what has been a technology-driven business model. "The big companies wants us on-site," Lawrence Raffone, president and CEO of Financial Engines, told RIABiz.com. Financial Engines offers retirement services to 650 companies, including 142 on the Fortune 500 list. The company, traded on Nasdaq, said MFS will deliver "significant earnings per share accretion" estimated at 25% in 2016. The cash-and-shares deal was cemented with MFS owner **Warburg Pincus** and management and will leave Warburg with about a 12.5% shareholding in Financial Engines. Warburg was involved in one other deal last year *(see Cross Border)*.

Between post-financial-crisis stresses on profitability and pressure from U.S. and European governments for transparency, Switzerland's wealth industry has been undergoing a significant metamorphosis. Last year, that played out in **Notenstein Private Bank**'s acquisition of the client relationships and staff of **Bank La Roche & Co.** The enlarged firm, **Notenstein La Roche Private Bank**, has CHF 36 billion ($39 billion) in AUM, with CHF 6.5 billion derived from Bank La Roche. Notenstein is itself a refugee of the pressures on Swiss private bankers as a tax evasion scandal involving U.S. clients led its former parent, Wegelin & Co., to shut down three years ago. Notenstein is now a subsidiary of Swiss bank **Raiffeisen Group**. Raiffeisen CEO Pierin Vincenz said the deal is part of its "diversification strategy" and strengthens Notenstein's position in the Swiss private banking industry. Notenstein said it "aims to play a key role in the consolidation process now under way in the Swiss financial sector." In a second all-Swiss deal, **Julius Baer** acquired independent wealth manager **Fransad Gestion** (AUM: CHF 1.3 billion), describing the firm as a "profitable business [that] has enjoyed healthy growth." Julius Baer said the deal will strengthen its position "in the independent wealth management market in Switzerland and expand its geographic footprint in French-speaking Switzerland." In an interview with Bloomberg following the deal, CEO Boris Collardi said Julius Baer would remain on the lookout for additional acquisitions domestically and globally, including potentially a "big elephant."

The U.K.'s wealth management industry continued its steady post-crisis consolidation with multiple deals, the largest being Towry's £120 million ($180 million) takeover of Ashcourt Rowan

The U.K.'s wealth management industry continued its steady post-crisis consolidation with multiple deals, the largest being Towry's £120 million ($180 million) takeover of Ashcourt Rowan. The takeover price represented an 88% premium to Ashcourt's average share price in the three months prior to the offering. The deal adds £5 billion in assets to the £6 billion Towry already managed from 19 offices across the U.K. and makes the firm a top-20 wealth manager. The firms said the deal will provide clients with more services and investment options. Towry has made five other wealth transactions since 2013, including the 2014 purchase of £1.5 billion of private client assets from **Baker Tilly**. The acquisitions have been funded by an aggressive capital raising in 2013 by **Palamon Capital Partners**, the London-based private equity firm that owns Towry. Some analysts speculated that Towry may have bulked up on Ashcroft to make itself a more attractive takeover target.

In a second deal, **Standard Life** acquired established Northern England wealth manager **Pearson Jones** from **Skipton Building Society** as part of the launch of a nationwide advisory business, adding £1.1 billion in assets. In announcing the launch and the deal, Standard Life made reference to the retirement slice of the advice business, saying the growth of defined contribution plans has created "a generation of individuals that will see advice as an essential service. This means demand for advice is likely to significantly exceed supply." In a larger wealth deal in 2013, Standard Life acquired the private client business of **Newton**, with £3.6 billion in AUM at the time. In 2014, the company paid £390 million for **Ignes Asset Management**. The various transactions underline the "dramatic transformation" that Standard Life has been undergoing in recent years "from being Europe's largest mutual insurance company to one focused on providing investment solutions to customers and clients around the world," as Chairman Sir Gerry Grimstone explained in the 2014 annual report.

Aberdeen Asset Management acquired **Parmenion Capital Partners** (AUM: £1.9 billion), a provider of customized investment solutions to more than 900 financial advisory firms via an electronic platform. In September, for example, the 9-year-old firm introduced a product that blends both active and passive investments, shifting weighting based on market conditions. In the year through March 31, 2015, Parmenion's AUM grew 69%. Aberdeen called the acquisition part of its strategy to "capitalise on advancements in financial technology systems" to deliver online investment solutions. Aberdeen made four other bolt-on acquisitions in 2015 *(see Hedge Funds/Private Equity and Money Management)*. A small U.K. deal saw **Walker Crips Group** buy **Barker Poland Asset Management**, adding £230 million in assets to the £1.8 billion it already managed. London-based Walker has set a goal of £5 billion in assets under management and administration. The numerous deals in recent years aside, the U.K.'s wealth business remains fragmented and ripe for continued consolidation, with many of the transactions being driven by the bottom-line squeeze from government reforms surrounding transparency and fees.

Cross Border

For the second consecutive year, cross border dealmakers were taking a long-shot run at the record year of 2007, when $1.9 trillion worth of such transactions took place. In the first half of 2015, the number stood at $632 billion, with the third-quarter tally adding $428 billion, according to Thomson Reuters. Although the final number fell short of that 2007 high-water mark, the $1.6 trillion in cross border deals last year represented the second-highest total ever, accounted for one-third of overall M&A value, and was a 27% increase over a robust 2014. By comparison, in 2009, the value of all cross border deals hit a recent low of $537 billion.

Notwithstanding the challenges in emerging markets, some protectionist rhetoric in the U.S. presidential race, and a sharp downturn in global trade, the M&A data indicate that globalization is not only alive and well but thriving. Within the asset management industry, companies continued to aggressively seek out new markets and partners in their drive for growth and enhanced capabilities. But American firms, with the currency and credit winds at their back, had a relatively subdued presence on the buy side last year. There were two major exceptions that also involved significant U.S. assets: **General Atlantic** and **Warburg Pincus** teaming up with **Santander** and **UniCredit** to combine the two European banks' asset management businesses; and **TA Associates** and **Reverence Capital** joining hands to buy the **Russell Investments** asset management business from the **London Stock Exchange**. In an additional deal of some scale with a U.S. buyer and assets but a European seller, **Stifel Financial Corp.** acquired the U.S. wealth unit of a retrenching **Barclays** for a price analysts pegged in the $200 million to $300 million range.

Canadian banks and asset managers, which since the financial crisis have capitalized on their strength to expand globally, accounted for four significant deals in the U.S., with **Sun Life Financial** of Toronto cutting two diverse transactions. Sun Life was joined by Montreal-based serial acquirer **Fiera Capital Corp.** and **Royal Bank of Canada**, the latter of which paid $5.4 billion for **City National Corp.** of Los Angeles in a bank deal that incorporated an important wealth management component. Within Europe, where major pickings have thinned in the wake of numerous post-crisis asset management divestitures by banks, the sale by government-owned **Royal Bank of Scotland** of its **Coutts** international wealth management business to **Union Bancaire Privee** was notable.

Activity was slow in volatile emerging markets, where just a handful of deals took place. China, an ongoing center of cross border asset management activity, was quiet, although **Aberdeen Asset Management** made news by capitalizing on reforms to establish the first wholly owned foreign fund manager in that nation. In India, the only deal involving an acquisition by a non-domestic player saw **Nippon Life Insurance** raise its stake in the nation's largest asset manager, **Reliance Capital Asset Management**. In Latin America, Italian asset manager **Azimut** assumed 50% of **LFI Investmentos**, a small Brazilian wealth manager. There were several noteworthy transpacific deals: **Mizuho Financial Group**'s acquisition of a 16% stake in San Francisco-based Asian specialist **Matthews International Capital Management**; **Nomura Holdings'** end-of-year $1 billion purchase of the 41% stake in Kansas City-based fund manager **American Century Investments** held by Canada's **CIBC**; and **Janus Capital Group**'s investment in Australian unconstrained bond manager **Kapstream Capital**. **Henderson Group** joined Janus in expanding in the Australian market by cutting three deals for local asset managers, including boosting its stake in **90 West Asset Management**.

One of the two largest cross border deals featured a complex mingling of two of Europe's largest banks and two high-profile New York private equity players, as Santander, UniCredit and affiliates of private equity firms General Atlantic and Warburg Pincus signed a preliminary agreement to combine UniCredit-owned **Pioneer Investments** and **Santander Asset Management** (SAM). General Atlantic and Warburg teamed up to pay €1 billion for a 50% stake in SAM in 2013. The combined firm will have €400 billion ($435 billion) in AUM and create a "comprehensively global firm with capabilities and client relationships around the world," including "substantially enhanced economies of scale." Specifically, the combined firm will have a presence in more than 30 developing and developed markets, including a "leading position in Europe," where half the assets are based.

The deal, which valued the combined firm at around €5.4 billion, establishes Pioneer Investments as the holding company for 100% of the U.S. business (AUM: $69 billion) and two-thirds of the dominant non-U.S. business. UniCredit and the two private equity companies will split ownership of Pioneer Investments evenly while Santander assumes one-third of the non-U.S. unit. To avoid regulatory complications related to its failure to pass Federal Reserve stress tests, Santander structured the deal to carve out a U.S. operation in which it holds no interest. However, the combined firm will operate as a one global entity run by a single management team. News reports quoting insiders said the private equity firms and Santander will pay UniCredit €1.1 billion in cash as part of the transaction. Warburg was involved in one other deal last year *(see Wealth)*.

The second megadeal also featured two U.S. private equity buyers, as TA Associates and Reverence Capital paid the London Stock Exchange $1.15 billion in cash (including $150 million in deferred payments) for the Russell Investments asset management business (AUM: $266 billion). Reverence said its minority investment was "significant." The deal, valuing Russell at around seven times EBITDA (earnings before interest, taxes, depreciation and amortization), includes Russell's consulting unit, with $2.4 trillion in assets under advice. TA Associates said Russell's "investment and implementation operations, as well as its orientation to multi-asset and solutions investing, will continue to be a differentiator and driver of growth." Russell's AUM includes a mix of equities, fixed income and alternatives.

In 2014, LSE paid $2.7 billion for the Russell business with an eye on the Seattle firm's large and higher-margin indexing business, which LSE retains. LSE began shopping the rest of the business soon after closing that deal, with numerous potential suitors lining up in a lengthy process that culminated last October. One Chinese suitor, **CITIC Group**, was reportedly willing to pay a premium price of up to $1.8 billion until its plans were derailed by the turmoil in China's markets, including a local insider trading investigation in which its securities arm was a target. Boston-based TA Associates, a prominent asset manager investor, also acquired a majority stake in **Keeley Asset Management** last year while selling its interest in **First Eagle Investment Management** *(see Money Management)*.

Cross Border Transactions

U.S. - INTERNATIONAL	2011	2012	2013	2014	2015
Number of Deals	21	22	27	21	**27**
Value ($B)	$2.8	$3.0	$3.9	$5.2	**$3.5**

INTERNATIONAL - INTERNATIONAL	2011	2012	2013	2014	2015
Number of Deals	27	26	22	20	**27**
Value ($B)	$2.4	$1.7	$3.9	$6.4	**$5.2**

TOTAL	2011	2012	2013	2014	2015
Number of Deals	48	48	49	41	**54**
Value ($B)	$5.3	$4.7	$7.8	$11.6	**$8.7**

Source: Berkshire Capital Securities LLC

In 2014, New York's Reverence helped finance **Victory Capital Management**'s acquisition of **Munder Capital Management**.

Canadian banks and asset managers continued their aggressive expansion outside the domestic market with a focus on the U.S., as strategic imperatives overcame the weakness of the currency. Aside from the limitations imposed by a relatively small domestic market, Canadian asset managers have also come under pressure as some of the nation's larger institutional investors begin to assume greater internal management of their assets. For example, **Caisse de depot et placement du Quebec**, the nation's second-largest pension fund, has in recent years transitioned to managing in-house the vast majority of its C$241 billion ($180 billion) in assets.

The major North American transaction, Royal Bank of Canada's $5.4 billion cash-and-shares purchase of Los Angeles-based City National Corp., was a bank-driven deal that incorporated a significant wealth element. CNC has $49 billion in AUM and another $12 billion under administration, with assets growing 10% a year. Additionally, CNC has a stronghold in three critical markets: Los Angeles, New York and San Francisco. As of the third quarter of 2015, RBC generated 19% of its revenue in the U.S. while global wealth management (including general asset management) accounted for 11% of earnings, with wealth earnings having surpassed the C$1 billion mark ($750 million) in 2014.

RBC President and CEO David McKay, who refers to the U.S. as "our second home market," told shareholders several months after the deal that the combination "will position RBC to expand significantly over the coming decade in the most attractive segment of the most attractive — and, yes, competitive — financial market in the world." He touted the ability of RBC's 2,000 financial advisors in the U.S. to harness CNC's private and commercial banking skills, "services we currently cannot offer to our 350,000 [U.S.] wealth management clients." RBC is the leading wealth manager in Canada, with its share of the high net worth market having climbed four percentage points in the four years to 2014 to 19%. Overall AUM registered average annual growth of 15% between 2012 and the third quarter of 2015 to top C$500 billion.

Sun Life Financial cut two deals for U.S.-based fixed income managers specializing in liability driven investment (LDI). The first was for **Ryan Labs Asset Management**, a New York firm that manages $5.1 billion in assets in a range of LDI strategies, as well as total return strategies. For pension funds as well as insurers, LDI strategies have become an increasingly popular risk management tool for matching future liabilities and assets. In discussing the deal with clients, Ryan said it would now "have access to resources and client service support that did not exist as a privately held company." Sun Life, which in 2014 launched a third-party institutional business in Canada, said the acquisition and its expansion in the U.S. "is the next step in our growth." That third-party business, **Sun Life Investment Management**, specializes in private-asset-class pooled funds and LDI strategies for institutions.

Sun Life followed up on the Ryan deal by acquiring **Prime Advisors**, a specialist in customized portfolios for the insurance industry, primarily in the U.S. Based in the Seattle area, Prime was founded in 1988 and has $13 billion in AUM. As in the case of Ryan Labs, Prime will operate as a subsidiary of Sun Life Investment. In 2014, Prime reported generating a 5.8% return on shorter-to-intermediate duration assets and 11.1% on longer-duration municipals, attributing the solid results to "our decision to remain fully invested with a slight bias toward longer duration" in the face of rate hike expectations. Patpatia & Associates has pegged outsourced assets by U.S. insurers at $1.3 trillion as of 2014, an 18% increase from the previous year and 23% of general account insurance assets. Bonds, mainly U.S., comprise 81% of outsourced assets. In a third deal, Sun Life paid C$560 million ($455 million) for Toronto real estate advisor **Bentall Kennedy Group** *(see Real Estate)*.

Another Canadian-U.S. fixed income deal saw Montreal's Fiera Capital Corp. buy **Samson Capital Advisors**, a New York firm with $7.6 billion in AUM. The deal gives Fiera more than $17 billion in AUM in the U.S. while bringing its total AUM to C$96 billion. Fiera paid more than $33 million in cash and shares, with additional earnout and incentive payouts of up to $15 million due over five years. Founded in 2004, Samson is a global fixed and currency income manager focusing on uncorrelated strategies, tax efficiency and high-quality bonds; its assets, primarily municipals, have tripled since the end of 2004, while the firm has avoided high-risk instruments from Detroit and Puerto Rico.

In the latest annual report, Fiera Chairman and CEO Jean-Guy Desjardins said the acquisition establishes a "strong foundation [in the U.S.] for our proprietary strategies. This is a significant step as we work towards raising our profile as a North American leader." Samson said the deal will offer clients "greater access to equities and other investment sectors," as well as enhanced fixed income strategies. Fiera said it will merge Samson with another U.S. holding, **Wilkinson O'Grady**, to create a wholly owned subsidiary. Wilkinson, acquired in 2013, pursues global investment strategies for wealthy clients and institutions. Samson CEO Benjamin Thompson will become president and CEO of Fiera's U.S. asset management unit.

A final North American deal involved a U.S. buyer and another niche seller: **Raymond James Financial**'s acquisition of an established Toronto-based exchange traded fund asset allocation specialist, **Cougar Global Investments** (AUM: $1 billion). Cougar, which serves high net worth and institutional clients, employs a proprietary investment process to construct long-only, globally diversified ETF portfolios in four mandates, with minimum targeted "acceptable rate[s] of return" ranging from 6% to 12% and downside risk management. The head of Raymond James' Canadian business, Paul Allison, told the *Financial Post* the deal "strengthens our platform and ability to deliver a greater variety of investment choices to our Canadian clients and other investors." Although Cougar is based in Canada, 90% of its asset base is in the U.S. — a

A final North American deal involved a U.S. buyer and another niche seller: Raymond James Financial's acquisition of an established Toronto-based exchange traded fund asset allocation specialist, Cougar Global Investments

market the 23-year-old firm entered six years ago. Much of that growth has been driven by its association with **LPL Financial**, where it was incorporated into the "model wealth portfolios" platform in 2010. As part of Raymond James, Cougar will become a subadvisor for the company's **Eagle Asset Management** unit. Raymond James' asset management unit has been growing strongly, with record AUM of $70 billion as of its 2015 fiscal third quarter, up 8% over the same period in 2014.

Seven years later, the financial crisis continued to reverberate in the largest European wealth deal, as bailout recipient Royal Bank of Scotland sold its Coutts international wealth management business to Union Bancaire Privee. Pricing on the deal will be determined "in part" by AUM at the time of closing, expected to be completed by 2016. RBS said it "anticipates receiving a premium." Coutts' international business had CHF 30 billion ($31 billion) in AUM at the time the deal was announced. It marked the second opportunistic deal UBP has concluded at the hands of a troubled U.K. firm: In 2013, the Geneva-based private bank acquired the Swiss-based wealth business of **Lloyds Banking Group**. RBS will continue to own Coutts' U.K. business, in line with its domestic focus.

UBP said the acquisition "confirms our commitment in further developing our wealth management business and represents a significant milestone in our growth strategy." The Coutts business will add bulk to UBP's existing wealth operations in Switzerland and Monaco while extending its presence "significantly" in Central and Eastern Europe, the Middle East and Asia. In particular, Nicolas Faller, CEO of UBP Institutional Clients, told Bloomberg the deal will allow it to "reach critical mass in Asia," adding: "The cost of entering Asia is huge. The question facing some companies is, how long can they stay and burn cash?" Separately, UBP announced a "strategic cooperation" agreement with publicly traded Shanghai wealth manager **Noah Holdings** in which Noah will gain access to UBP's global research and product capabilities while the Swiss firm enhances its distribution in the Chinese wealth market.

Switzerland's **Vontobel Holding** expanded its European presence with two deals, in the first acquiring a 60% stake in London's **TwentyFour Asset Management**, a fixed income manager with £4.4 billion ($6.5 billion) in AUM. Vontobel will acquire 100% over time for a total consideration of £99 million. Vontobel said the deal extends its fixed income portfolio as well as its U.K. business. In line with Vontobel's "multi-boutique structure," TwentyFour will operate independently. TwentyFour specializes in asset-backed securities and unconstrained strategies. In the first half of 2015, assets in Vontobel's fixed income boutique (one of five under the firm's asset management umbrella) rose 71% to CHF 18.3 billion, with more than one-third owing to the TwentyFour acquisition. Overall, Vontobel has CHF 142 billion ($144 billion) in assets under management and administration.

in a dozen major cities, including Chicago, Los Angeles, New York and San Francisco. Barclays acquired the business from Lehman Brothers in 2008. Stifel has been an aggressive acquirer of late, including last year's $150 million deal for brokerage **Sterne Agee** and the purchase in 2014 of Legg Mason Investment Counsel & Trust. With this transaction, Stifel is buying into a higher net worth clientele than the one it typically serves. Stifel said the acquisition would be immediately accretive and add between $200 million and $325 million in revenue. In 2013, as part of an effort to improve profitability, Barclays announced a plan to cut by more than half the number of markets in which it offers wealth and asset management services.

Cross Border Transactions by Domicile and Type

2015 BUYER: / SELLER:	U.S. / INT'L	INT'L / U.S.	INT'L / INT'L	TOTAL
Wealth Management	3	1	12	**16**
Money Management	6	9	11	**26**
Other	6	2	4	**12**
Total	**15**	**12**	**27**	**54**

2014 BUYER: / SELLER:	U.S. / INT'L	INT'L / U.S.	INT'L / INT'L	TOTAL
Wealth Management	0	2	3	**5**
Money Management	4	8	10	**22**
Other	3	4	7	**14**
Total	**7**	**14**	**20**	**41**

Source: Berkshire Capital Securities LLC

A second transatlantic deal in the growing infrastructure space saw **Hunt Companies** of Texas buy a 50% interest in London-based **Amber Infrastructure Group**, which develops and finances social infrastructure, transportation, renewable energy and urban development projects in Australia, Canada and Europe. The total value of these projects, most involving public-private partnerships, is more than £12 billion. Amber also provides management services on more than 80 infrastructure projects, the majority of which are held in funds managed by subsidiary **Amber Fund Management**. The funds include the £1.1 billion ($1.7 billion) International Public Partnerships global infrastructure fund, which trades on the London Stock Exchange and targets an internal rate of return of 8% to 9% and dividend growth of "at least" 2.5%, in line with long-term inflation forecasts. Privately held Hunt is engaged in the development, investment, management and financing of real assets and has a long history of public-private partnerships. In 2014, for example, the company was selected by the city of El Paso, Texas, to develop a 31-acre transit-oriented mixed-use real estate project. Citing the "significant public sector infrastructure opportunities in North America," CEO Chris Hunt said the addition of a partner "with extensive expertise in all facets of infrastructure significantly expands the capabilities to Hunt's platform." Amber said there are "a number of projects in the U.S. on which we will partner immediately."

The Swiss bank executed a second cross border deal by acquiring **Finter Bank Zurich**, owned by **Italmobiliare**, the financial holding company for the wealthy Pesenti family of Italy. Finter has offices in Switzerland and CHF 1.6 billion in AUM. Vontobel said the CHF 80 million deal will enhance its Swiss business, including in the Italian-speaking canton of Ticino, and "create a solid platform for decisive growth in private banking in its focus market of Italy," where Vontobel already manages CHF 6 billion in assets. As part of what Vontobel described as a "long-term commitment," Italmobiliare will support Vontobel's expansion in Italy and invest CHF 10 million in the Swiss firm's shares. Another transaction involving an Italian asset saw **UBS** acquire Santander's Milan-based wealth unit, with €2.7 billion in AUM. UBS said the deal will enhance its growth in Italy and boost its position in the wealth management pecking order from No. 6 to No. 4. UBS said AUM in its Italian wealth business grew 9% in the first half of 2015.

The were several transatlantic deals of note, including Barclays' sale of its large U.S. wealth unit to Stifel Financial Corp. The British bank has been restructuring its entire business, including wealth management. Stifel gains a business with $56 billion in assets, 180 advisors and offices

In the mutual funds sector, **La Francaise** of Paris assumed a 49.9% stake in the London unit of New York's **Fred Alger Management**. For Fred Alger, the deal provides distribution in Europe while La Francaise (AUM: €48 billion/$54 billion) gains access to Alger's growth-oriented U.S. equities expertise. Alger's best-known fund, Alger Spectra, is a large-cap growth vehicle with more than $5 billion in AUM. The deal is in keeping with partnerships La Francaise has established with such European firms as **Tages Capital,** an alternatives manager, and **Forum Partners Investment Management**, a real estate investment manager. La Francaise is majority-owned by **Credit Mutuel Nord Europe**, a cooperative bank operating in Belgium, France and Luxembourg. Another high-profile American asset manager, **BNY Mellon**, sold its German affiliate, **Meriten**

Investment Management, to Paris-based **Oddo & Cie**. The addition more than doubles Oddo & Cie's AUM to €41 billion. Meriten manages a European-focused investment strategy via fixed income, multi-asset and quantitative vehicles. Oddo, which also focuses on European investments, said it aims to build "a leading investment manager" covering European markets and the range of asset classes.

In the structured products arena, **Rothschild Merchant Banking**, the private equity and private debt arm of France's **Rothschild Group**, acquired Los Angeles-based credit specialist **West Gate Horizons Advisors**, which manages $1.5 billion in assets across five collateralized loan obligation structures. Rothschild said the acquisition combines West Gate's "specialized expertise in US leveraged loan credit" with its own focus on European senior leveraged loan credit. For its part, West Gate will benefit from Rothschild's distribution and banking relationships. Prior to the deal, Rothschild managed nearly €2 billion in private debt. In the second quarter of 2015, European leveraged loan issues topped €47 billion, according to AFME, around one-fifth the amount in the U.S. during the same period.

A second U.S.-Australia tie-up involved Legg Mason's purchase of a 75% stake in RARE Infrastructure, a specialist in global listed infrastructure investments with $7.6 billion in AUM

In an all-European deal, **Aegon**, through its asset management unit, paid €112.5 million for a 25% stake in **La Banque Postale**'s asset management arm as part of "a strategic long-term partnership to jointly develop and sell investment products." Aegon has more than €340 billion in AUM, with 40% managed for its general account and three-quarters in fixed income. With €150 billion in AUM, La Banque Postale is the fifth-largest asset manager in France. The firms touted the merging of Aegon's "global investment expertise" and La Banque Postale's "extensive distribution network" in France, where it has 17,000 "points of sale." In 2014, Aegon sold its longtime minority stake in a joint venture with another French firm, insurer **La Mondiale**. At the time, Aegon said that venture, which included life insurance, pensions and savings products, "no longer matches our ambitions." The Dutch insurer, pension and asset manager noted that the initiative with La Banque Postale is part of an effort to "grow and diversify its customer base and to provide fee-based, capital-light products." The two firms pledged to create diversified products "to meet the challenges of historically low interest rates" and new global products covering fixed income and equities.

A European wealth deal featuring a high-profile Chinese buyer saw Shanghai-based conglomerate **Fosun** pay €210 million ($230 million) for German private bank **Hauck & Aufhauser**. The bank, based in Frankfurt and with more than €3 billion in assets, said its new owner will open up "new international prospects" while Fosun said the deal will provide access to European markets. Fosun quickly followed up that transaction by making a €528 million bid it ultimately dropped for another German private bank, **BHF Kleinwort Benson**, in which it acquired a minority stake in 2014. The firm also made a play for Portuguese bank **Novo Banco**, the "good bank" created from the failed **Banco Espirito Santo**, but the bid, along with others, was rejected as too low. Fosun is controlled by billionaire Gu Guangchang, who has built a large portfolio of financial services, industrial, property and health care firms, pursuing a model similar to Warren Buffet's Berkshire Hathaway while employing a significant amount of leverage. Last year, that activity included $6.5 billion worth of non-Chinese investments in just the six months through July, when the Hauck & Aufhauser deal was announced. (In December, Guo's brief "disappearance" and subsequent involvement with Chinese regulators regarding a financial investigation caused some observers to question whether German and European regulators would nix Fosun's purchase of Hauck & Aufhauser.)

In 2014, one of the major stories in the money management sector involved the abrupt departure from **PIMCO** of legendary bond investor Bill Gross and his move to Janus Capital Group. The Denver-based fund manager quickly followed up that coup by acquiring an ETF provider, VS Holdings — a deal that was widely interpreted as providing Gross with an ETF platform. Last year, Janus made another acquisition designed to bolster Gross' hand when it paid some $85 million to acquire a 51% interest in Kapstream Capital, an Australian-based global unconstrained fixed income manager. The company has the option to acquire the remaining 49% of Kapstream at a future date. For Kapstream co-founder Kumar Palghat, who was head of PIMCO's Asia-Pacific portfolio for five years before founding his firm in 2006, the deal creates a reunion with Gross: Palghat will become co-manager of the Janus Global Unconstrained Bond fund started and managed by Gross.

Kapstream has $6.6 billion in AUM and serves investors primarily in Australia, with most of the assets derived through that nation's massive Superannuation funds. The addition of Kapstream's assets gives PIMCO $8.7 billion in global macro fixed income AUM, including $1.5 billion in Janus Global Unconstrained. Kapstream also provides Janus' expanding international business with a foothold in Australia. Kapstream investor and Sydney-based asset manager **Challenger Limited** said its sale was driven by the "opportunity to build a relationship" with Janus, including a new distribution arrangement with Janus and Kapstream. Dick Weil, CEO of Janus, said the deal "furthers our commitment to expand our fixed income capabilities as part of the firm's intelligent diversification strategy." Janus has 19% of its $190 billion in assets in fixed income.

A second U.S.-Australia tie-up involved **Legg Mason**'s purchase of a 75% stake in **RARE Infrastructure**, a specialist in global listed infrastructure investments with $7.6 billion in AUM. The deal involves Legg buying most of the majority shareholding of employees as well as most of the minority shareholding of Australian multi-boutique firm **Pacific Current Group**. Although Legg did not provide a price, Pacific Current disclosed an upfront A$112 million ($80 million) cash payment plus an earnout of up to A$42 million for selling 26% (it retains 10%). The deal expands Legg's lineup of liquid alternatives in what the company called a "high-growth asset class." Infrastructure has gained favor among institutions as an uncorrelated investment that can provide stable returns, and RARE's assets — which have more than doubled since 2011 — include investments in developed and developing markets. Joseph Sullivan, chairman and CEO of Legg, said his firm will leverage RARE's existing client strength in Australia and Canada into additional markets in the U.S., Asia and Europe. Speaking on RARE's Website, Nick Langley, Co-CEO, called the partnership "a natural progression" that allows his firm to "retain our independence .... provides continuity and sustainability for our clients .... and access to a deep, well-resourced support network." RARE will join Legg's portfolio of seven other affiliates, including a second non-U.S. holding acquired in 2014, **Martin Currie** of Scotland.

In a third transpacific deal heading the other way, Tokyo-based Mizuho Financial Group assumed a 16% stake in a prominent San Francisco-based Asian investor, Matthews International Capital Management. Founded in 1991, Matthews has more than $26 billion in AUM in a range of regional, country-specific and specialized funds and has been expanding its client base outside the U.S. in recent years. The largest such fund is 22-year-old Matthews Pacific Tiger (AUM: $7 billion), which seeks long-term capital appreciation. As of mid-year 2015, the fund had one-third of its assets in China and Hong Kong, or nine percentage points underweight the MSCI All Country Asia ex-Japan Index, and 18% in India (overweight the index by nine points). Still, in a September 2015 interview with CNBC, Andy Rothman, Matthews investment strategist, made a case for China, acknowledging the manufacturing slowdown but citing strong growth in consumer spending and home sales as the nation transitions to "an economy driven by consumers and services."

Katsunobu Motohashi, the head of Mizuho's asset management arm, said Matthews' "long-term investment philosophy complements our client needs as they increasingly shift their wealth from savings to investment." Mizuho will act as distributor for Matthews products to Japan's generally risk-averse retail and institutional investors and the two firms plan to jointly develop Asia-focused products. Mizuho, Japan's second-largest financial services firm, has made asset management a "key focus area," including the expansion of its global asset management platform. Following the Matthews deal, Mizuho and **Dai-ichi Life Insurance** announced that they are combining their respective asset management businesses *(see Money Management)*.

Henderson Group cut three deals in Australia, paying A$72 million ($55 million) for **Perennial Fixed Interest Partners** and **Perennial Growth Management** owned by Melbourne-based wealth manager **IOOF Holdings**. Henderson will also pay a deferred performance fee after two and four years. In the third deal, Henderson increased its ownership from 41% to 100% in **90 West Asset Management**, which has seen its global natural resources equities funds and segregated mandates business more than triple to A$300 million in assets since Henderson's initial investment in 2013 (the same year Henderson entered the market). Without disclosing deal valuation, Henderson said all three fell within its comfort range of eight to 12 times EBITDA (earnings before income, taxes, depreciation and amortization). The two Perennial businesses, which manage primarily fixed income but also equity investments, add A$10.7 billion in AUM (80% institutional), tripling Henderson's assets in Australia. Following the various deals, Asia-Pacific accounts for 11% of Henderson's total AUM of £89 billion ($138 billion). Henderson said Perennial's capabilities "will significantly extend" its offerings to Australian clients beyond global products while "providing a broader platform for future growth in the market." Henderson will rebrand the acquired products under its own name.

The deal also forges a link between Henderson and IOOF, which with A$154 billion in assets under management, administration, advice and supervision is a top-five advice and platform business. Although small in population, Australia is an attractive market for asset managers due to a Superannuation program that makes it is the fourth-largest pension market in the world and one of the fastest-growing. Henderson has been diversifying away from its dependence on the U.K. market, which after the Australian deals dropped four percentage points to 56% of AUM. In 2014, the company acquired Milwaukee small- and mid-cap manager Geneva Capital Management, boosting its U.S presence. The deals are in line with Henderson's five-year "Growth and Globalization" strategy announced in early 2014.

Within Asia, deal activity was quiet, the most notable one involving Nippon Life Insurance raising its stake to 49% in Reliance Capital Asset Management, India's largest asset manager (AUM: $37 billion). Nippon Life, which bought its original 26% stake in 2012 when RCAM had $19 billion in AUM, paid a total of nearly $290 million for the additional 23%, acquired in two separately announced tranches of 9% and 14%. As part of the deal, RCAM's name was changed to **Reliance Nippon Life Asset Management**. Nippon also owns a minority share of the insurance company owned by RCAM parent **Reliance Group**. Prior to Nippon Life's second share purchase last October, RCAM paid nearly $38 million for **Goldman Sachs**' onshore Indian asset management business (AUM: $1.1 billion), with the New York firm stressing its continued commitment to that market via its local investment banking and securities businesses.

Three divestitures by European banks in India included Royal Bank of Scotland's sale of its private bank to local management; **Deutsche Bank**'s sale of its asset management unit to Mumbai-based **Pramerica Asset Managers**, a joint venture between Indian housing finance company **DHFL** and **Prudential Financial**; and **KBC Asset Management**'s sale of a 49% stake in **Union KBC Asset Management** to **Union Bank of India**. The sales underline the general restructuring European banks are undertaking, as well as the challenges non-Indian financial services firms face making money in a market characterized by restrictive and costly regulations. Separately, the Indian government last year abandoned a plan to apply the nation's minimum alternate tax to non-Indian investors, including demands for back taxes. Aberdeen Asset Management and other foreign asset managers responded with a court challenge, with the government retreating on advice of a special panel.

Real Estate

In a world mired in low interest rates, the commercial real estate market remained a prime beneficiary for another year, as those rates help to fuel development as well as investment from yield-starved institutions. Indeed, the introduction of quantitative easing early last year by the European Central Bank gave commercial real estate investors on the Continent a new reason to be cheerful. "Quantitative easing will only increase the amount of money coming in," Cornerstone Real Estate Advisers CEO Scott Brown told the *Wall Street Journal* last March at a conference of real estate executives on the Riviera.

For U.S. firms such as Cornerstone, part of **MassMutual Financial Group**, a strong greenback makes investment in European real estate particularly compelling. In 2014, Cornerstone expanded its European presence by acquiring a German real estate advisory firm, Pamera Asset Management, and last year announced plans to extend its footprint with offices in France, Italy and Spain. Coming off a robust 2014 in European commercial real estate, transactions in the region in the first half of 2015 rose 37% to €135 billion ($150 billion), according to Real Capital Analytics (RCA). In the U.S., deal value jumped 36% to $225 billion. Prices are also rebounding smartly: The Moody's and RCA U.S. Commercial Property Price Indices last October were 14.5% above the November 2007 peak on a nominal basis and 1.5% on an inflation-adjusted basis. The index fell 40% between November 2007 and January 2010.

The demand for commercial real estate investments was reflected in **Blackstone Group**'s successful close last October of the largest-ever private real estate fund, at $15.8 billion. Indeed, opportunistic funds such as Blackstone Real Estate Partners VIII dominated closings in the 2015 third quarter, accounting for three-quarters of the $38 billion in closed-end private funds raised globally, according to researcher Preqin. For the first three quarters, opportunistic funds raised $48 billion globally, or 38% more than in 2014 as a whole. "With more mega funds currently being marketed," Preqin wrote, "and institutional investor appetite for opportunistic funds still high, fundraising is likely to remain strong in the coming quarters."

In the 2015 third quarter, Blackstone reported a nearly 9% appreciation in its $13 billion in opportunistic real estate funds year-to-date and a 16% year-over-year increase in real estate AUM to $93 billion, including $27 billion in "dry powder" (total AUM: $334 billion). Blackstone was an active buyer of properties last year through its various funds, including the $1.3 billion acquisition of Willis Tower in Chicago, $15 billion in real estate assets acquired from **GE Capital Real Estate**, and the $5.3 billion acquisition of two major Manhattan apartment complexes. Among the 93 largest real estate investment managers in *Pension & Investments* latest annual survey, which includes real estate investment trusts, growth in worldwide assets rose to pre-crisis levels of 20% in the 12 months through June 2015, with assets reaching $1.2 trillion.

At one of the larger real estate advisors, **TIAA-CREF**, Phil McAndrews, senior managing director and chief investment officer for global real estate, told *Pensions & Investments* last October that he has a "really positive outlook" on real estate due to rising rents and supply that "remains under control." Demand remains strong, McAndrews said, primarily because of the significant gap between the return offered by real estate and that of U.S. Treasuries. He did caution, however, that with the market in a "mature part of the cycle," top-tier areas such as New York and San Francisco are the preferred choice for investment.

Real Estate Transactions

	2011	2012	2013	2014	2015
Number of Transactions	11	10	13	13	**15**
Combined Value ($M)	$2,058	$230	$875	$1,458	**$1,526**
Total Seller AUM ($B)	$117.4	$38.9	$77.9	$93	**$90**
Average Deal Size ($M)	$187	$23	$67	$112	**$102**
Average Seller AUM ($B)	$10.7	$3.9	$6.0	$7.0	**$6.0**

Source: Berkshire Capital Securities LLC

TIAA-CREF was among the players last year making acquisitions in the real estate advisory sector, which also hosted one of the largest such transactions in recent years: **Sun Life Financial**'s C$560 million ($455 million) purchase of **Bentall Kennedy Group**. The deal between the two Toronto firms is in keeping with Sun Life's expansion into third-party asset management and is in addition to two other asset managers the insurer acquired last year *(see Cross Border)*. Bentall Kennedy adds C$28 billion in real estate AUM to the C$20 billion in commercial mortgage and real estate assets managed by Sun Life, with the combined assets primarily in North America. The firms serve a total of 550 institutional clients and investors. The all-cash deal, which Sun Life said will be accretive to earnings in 2016, includes buying out the shareholdings of **British Columbia Investment Management Corp.** and the **California Public Employees' Retirement System**, both of which will remain as clients. Sun Life Financial has been a significant client for Bentall Kennedy since 2004.

Referencing the establishment in 2014 of **Sun Life Investment Management**, Chief Investment Officer Stephen Peacher told Canada's Business News Network that the transaction goal "was to take some of the alternative yield strategies like real estate and commercial mortgages that we've used at Sun Life and bring them to investors. Bentall Kennedy ... [is] a natural extension of that real estate expertise that we want to bring to investors." During the same June 2015 interview, Bentall Kennedy CEO Gary Whitelaw said trailing 12-month returns for his firm were 14% and would top 10% in 2015 "on a very large, very diversified portfolio with predictable income. So in a world that's looking for predictable income, it's a great asset class [and] North America is a safe haven and an area of growth."

TIAA-CREF was involved in two transactions last year with European asset managers. In the first, the New York firm bought out **Henderson Global Investors**' interest in a joint venture the two firms established in 2013. TIAA-CREF paid £80 million ($123 million) for Henderson's 40% shareholding in **TIAA Henderson Real Estate**, which was created when TIAA-CREF acquired Henderson's U.S. real estate advisory business and Henderson contributed its European and Asian real estate businesses. The unit has $26 billion in AUM in core and value-add commercial real estate. TIAA-CREF noted that since setting up the joint venture it has gained $1.3 billion in new mandates and secured $3.6 billion in capital recommitments from closed-end fund investors. TH Real Estate will continue to subadvise Henderson's U.K. property fund.

Savills Investment Management of London agreed to pay up to €21.5 million for Frankfurt's SEB Asset Management, part of Swedish bank SEB

In the second deal, TIAA-CREF formed a joint venture with **Swedish National Pension Funds AP1** and **AP2** to "create a leading pan-European office investment platform." The initial platform, operating under the **Cityhold Office Partnership** name, will consist of properties from TIAA-CREF's general account and AP1 and AP2 valued at €2.2 billion ($2.5 billion); it will be managed by TH Real Estate. The two partners plan to make an additional €2 billion investment over the next three years, targeting core investments in leading cities such as Frankfurt, London and Paris. AP1 and AP2 are among five separate investment funds in Sweden's pension system, which has more than $140 billion in assets. TIAA-CREF said the deal allows it to "further diversify [our] existing European office portfolio across asset, tenant and market exposures while establishing a broader platform to expand our European investments." TIAA-CREF has been co-investing with AP2 since 2011 in various real estate strategies, including timberland and farmland.

There were several other transactions in the European market, among them the buyout by Colin Campbell of the 60% of London-based **Pradera** he did not own. The retail property specialist has €2.4 billion ($2.9 billion) in AUM in funds, joint ventures and separate account mandates throughout Europe. Citing opportunities in both the U.K. and on Continental Europe, Campbell said the deal will "enable us to grow at a greater pace." Among the four Pradera branded funds is Pradera Open-Ended Retail, launched in Germany in 2009 and named the best-performing fund in 2014 on the German Spezialfonds Index ("Spezialfonds" are a type of institutional fund in Germany). The fund comprises seven retail properties in Germany, Poland and the U.K., with "further acquisitions in the pipeline."

Savills Investment Management of London (formerly known as Cordea Savills) agreed to pay up to €21.5 million for Frankfurt's **SEB Asset Management**, part of Swedish bank **SEB**. The combined business will have €15 billion in AUM in a variety of European-focused fund structures and another €2 billion in an Asian platform. However, about 60% of the €10 billion in acquired SEBAM assets are in German opened-ended funds that are in the process of liquidation. SIM said the deal adds "to our critical mass and enhance(s) our ability to offer investment opportunities to clients.... and strengthen(s) our position as one of the leading investment management propositions in Europe and Asia." SIM is part of publicly traded real estate services firm **Savills**. In a second deal, SIM concluded a joint venture with privately held **China Minsheng Investment Capital** to develop and market a series of global real estate funds and investment vehicles. The two firms quickly established the CMISIM European Investment fund, with Shanghai-based China Minsheng providing up to €30 million in seed capital as the cornerstone investor. The fund's goal is to deliver a net return of 15%.

In a second transpacific deal, Australia's **Cromwell Property Group** paid €145 million ($165 million) for pan-European property funds manager **Valad Europe**, which has some €5 billion in AUM. The addition more than doubles Cromwell's total funds under management to nearly A$12 billion ($9.5 billion); complements the Brisbane firm's Asia-Pacific focus; and is in keeping with its strategic goal of increasing the proportion of total revenues generated by global funds management. Cromwell cut the deal with Blackstone Group through the Blackstone Real Estate Partners VI fund and with Valad senior management. Valad Europe had been part of the **Valad Property Group** in Australia until Valad Property was acquired in 2011 by Blackstone, which then split the two businesses.

Within the U.S., there was a small deal of note involving two commercial real estate advisory firms, as ambitious and fast-growing **Allegiancy** acquired **TriStone Realty Management**, doubling its AUM to $1 billion. The deal follows Allegiancy's $5 million capital raise in 2014, which CEO Steve Sadler told Richmond (Va.) BizSense was designed to assist his firm in acquiring "quality operators and bring[ing] them in as affiliates. It [TriStone] was an opportunity to execute on our strategy, expand our asset base and grow our geographic presence." Last September, Allegiancy made plans for a further $50 million capital raise. After doubling the size of its business in 2014, Allegiancy said the addition of Houston-based TriStone brings the company's growth to 400% in just over a year. TriStone, founded in 1997, manages a portfolio of some 3 million square feet of commercial space in nine states. Based in Virginia, Allegiancy specializes in office properties and bills itself as combining proprietary technology with an "intense focus on cash flow and profitability" to bring "fresh vigor to an often poorly understood business." Allegiancy has set an aggressive five-year goal of managing $10 billion to $15 billion in real estate AUM.

Hedge Funds/Private Equity

For more than a decade, institutions have delivered a big shot in the arm for the alternatives industry, ramping up their allocation to such investments as both an alpha generator and a diversifying agent complementing their traditional equity and fixed income holdings. That belief system began to falter after the financial crisis, when hedge funds in particular suffered significant negative returns. In the go-go equity years since, hedge funds as a whole have lagged, a record that many industry players and analysts have ascribed to limited volatility and the stubbornly high correlation among assets.

But when volatility began to pick up in 2015 and hedge funds had their opportunity to shine, theory and expectations lost out to the vagaries of investing. In the first three quarters, the industry as a whole recorded a negative 1.3% return, according to researcher HFR, with particularly bad results during the shaky months of August and September. In August, some of the industry's most storied investors joined lesser lights bathed in red. David Einhorn's $11 billion long-short value-oriented **Greenlight Capital** fund was reportedly off 5% in August and 14% for the year through that month. William Ackman's **Pershing Square Capital Management** saw its flagship activist fund decline 9% in August. John Paulson, who rose to fame and vast wealth at **Paulson & Co.** in 2007 on big bets against the housing market, saw three of his funds go sharply negative in August, with two delivering year-to-date negative returns. **Fortress Investment Group** shut down the macro fund run by Michael Novogratz, a principal and director, following an 18% loss through September and significant redemptions. Another alternatives giant, **Carlyle Group**, was weighing the closure of its majority-owned **Claren Road** credit hedge fund, as AUM dropped by more than half from the $8.5 billion managed in 2014.

Surveying that landscape, the *Economist* opined last August: "The industry used to promote itself as being able to make profits whether the underlying markets were rising or falling. In fact, in the financial crash of 2008 it suffered big losses. In recent years the average return of hedge funds is remarkably similar to what a portfolio of bonds and equities would yield — with the disadvantage that higher fees are deducted." Added *Financial Times* editor and columnist Matthew Vincent: "No fund that gains 20 percent in seven months and loses 7 percent in one can be meaningfully hedged. It is simply a 'bet' fund, placing big and frequently ill-judged wagers."

Fortunately for hedge funds, the prestigious British newsweekly and newspaper are not making allocation decisions, as in the face of questionable performance institutions largely appear as committed as ever to the investment vehicles, albeit with some pushback against the rich "2 and 20" fee structure. The latest Towers Watson/*Financial Times* Global Alternatives Survey noted that institutional investors "continue to use hedge funds to access skill and build diversity into portfolios," particularly as "beta valuations are coming under pressure" and "manager skill" and portfolios with "differentiated strategies" appear as "the best way to protect value into the next phase of the cycle." Between 2013 and 2014, assets in hedge funds and fund of funds among the top 100 alternative asset managers held steady at 28% of their total alternative assets of $3.4 trillion. In the first half of 2015, the industry recorded net inflows of $40 billion, with firms managing more than $5 billion accounting for nearly three-quarters, according to HFR. Consultant PwC figures alternatives assets as whole could grow from $7.9 trillion in 2013 to between $13.6 trillion and $15.3 trillion by 2020, with hedge funds and fund of funds climbing from $2.9 trillion to between $4.6 trillion and $5 trillion.

Hedge Fund/Hedge Fund of Funds Transactions

	2011	2012	2013	2014	2015
Number of Transactions	14	23	19	7	**10**
Combined Value ($M)	$873	$892	$755	$76	**$986**
Total Seller AUM ($B)	$42.9	$60.5	$71.1	$7.0	**$98.2**
Average Deal Size ($M)	$62	$39	$40	$11	**$99**
Average Seller AUM ($B)	$3.1	$2.6	$3.7	$1.0	**$9.8**

Source: Berkshire Capital Securities LLC

One of the largest managers of hedge funds for pension funds, **Man Group** — listed as No. 3 in the Towers survey in that category — saw its AUM climb 8% in the first half as it continued to add to its portfolio with one deal, bringing to five the number of hedge fund acquisitions it has made in the last two years (including one in 2014 for contracts). Man was joined by a neighboring London firm, **Aberdeen Asset Management**, which acquired both a hedge fund and private equity firm in the U.S. **Neuberger Berman** continued to add to its hedge fund holdings through its **Dyal Capital Partners** unit. The two minority stakes it acquired bring to 14 the number of hedge funds in which Dyal has shareholdings. In addition, at year-end Dyal reportedly acquired a minority stake in a Houston-based private equity energy specialist, **EnCap Investments**. **Blackstone Group**, **Brevan Howard Asset Management** and **KKR & Co.** were three other major alternatives players that took minority stakes in hedge funds, while **Affiliated Managers Group** made investments in three firms that offer hedge funds in whole or part.

Man Group's deal involved a long-short and long-only investor with $1.2 billion in AUM, **NewSmith**. The 13-year-old firm, 40% owned by **Sumitomo Mitsui Trust Bank**, has offices in London and Tokyo. In 2014, the largest of Man's acquisitions was for quantitative equity manager Numeric Holdings of Boston. In the company's 2015 first half, the various acquisitions, combined with positive investment performance, helped boost Man's AUM to $79 billion. With the acquisition of NewSmith, Man adds a Tokyo-based hedge fund equity team to its portfolio. NewSmith, which in 2014 lost two of its founding partners to retirement, also invests in U.K., European and global equities. Separately, Sumitomo said it will begin to offer Man products to its clients.

Private Equity Fund Transactions

	2011	2012	2013	2014	2015
Number of Transactions	5	9	9	7	**6**
Combined Value ($M)	$464	$575	$834	$354	**$910**
Total Seller AUM ($B)	$65.8	$31.6	$55.4	$38.7	**$35.8**
Average Deal Size ($M)	$93	$64	$93	$51	**$152**
Average Seller AUM ($B)	$13.2	$3.5	$6.2	$5.5	**$6.0**

Source: Berkshire Capital Securities LLC

Aberdeen Asset Management's two U.S. deals are part of a bid to expand its alternatives business, strengthen institutional relationships, and build out its U.S. presence. On the fund of hedge funds side, Aberdeen acquired **Arden Asset Management**, a New York firm with more than $11 billion in assets, about half under advisement for the Massachusetts teachers and state employees pension fund, which invests directly in hedge funds. For Massachusetts PRIM, Arden effectively acts as a consultant, providing manager sourcing, due diligence, risk analysis and portfolio construction. Overall, the 23-year-old firm runs 18 customized portfolios for institutions worldwide as well as three daily liquidity products and four commingled programs. The liquidity products include the $1 billion Arden Alternative Strategies multi-manager fund available on **Fidelity Investments**' platform, with the aim of achieving "relatively low beta" to the major equity and fixed income markets.

In touting the value-added it provides clients, Arden President Henry Davis told *InvestHedge* last April that the firm believes "alpha exists and can be captured through skill-based management," adding: "Hedge fund investors have different levels of information [about managers], so allocating to hedge funds is an inefficient market and it is possible to achieve an information advantage." Arden invests with some 130 managers across its portfolio. In the second deal, Aberdeen acquired established private equity firm **FLAG Capital Management**, with $6.3 billion of invested and committed capital. With offices in Boston, Connecticut and Hong Kong, FLAG invests in venture capital, small- to mid-cap private equity, and real assets in the U.S., as well as private equity in Asia-Pacific.

Aberdeen, which had about $9 billion in private equity assets in Europe prior to the deal, said FLAG's "well-established private equity teams in the U.S. and Asia will help broaden Aberdeen's private markets solutions activity within the alternatives arena." FLAG also extends Aberdeen's presence in the U.S., which Aberdeen called "a key growth market." Subsequently, Aberdeen closed a $295 million FLAG Private Equity VI fund, which was $70 million above target. The fund will invest in lower-middle-market private equity funds in the U.S. Following both the AAM and FLAG deals, Aberdeen had around $30 billion in its alternatives platform, or 6% of its total assets of $520 billion (£330 billion). "Alternatives are becoming core elements of a quality portfolio, and we need to fill in our gaps in that universe," Andrew McCaffery, Aberdeen's global head of alternatives, told *Pensions & Investments*. In a third deal, Aberdeen paid £29 million for the 49.9% interest of London private equity firm **SVG Capital** in their joint venture, **Aberdeen SVG Private Equity Managers**. Aberdeen made two other bolt-on acquisitions in 2015 *(see Money Management and Wealth)*.

Affiliated Managers Group enhanced its alternatives lineup by making minority investments in three geographically diverse firms providing hedge fund strategies in whole or part and managing a total of nearly $20 billion in AUM. All three were announced the same day in November. The major deal involved a quantitative firm, Geneva-based **Systematica Investments** (AUM: $8.8 billion), led by high-profile trader Leda Braga. AMG bought most of the stake owned by Guernsey-based **BlueCrest Capital Management**, which spun out Braga's group in 2014. AMG touted Systematic's status as a "leading managed futures and systematic trading" firm, saying it will add a "highly differentiated array of new strategies" to its platform. The second-largest deal by assets involved **Abax Investments** (AUM: $5.4 billion) of South Africa. Abax specializes in domestic investments, offering a mix of traditional equity and fixed income funds and hedge funds. AMG referred to that niche in calling the firm "well-positioned to benefit from the region's outstanding growth prospects."

The final deal was for **Ivory Investment Management** (AUM: $3.6 billion), a Los Angeles firm that pursues long-short and long-only strategies. AMG praised Ivory's "demonstrated ability to protect capital in both positive and negative market environments" as well as its "disciplined approach to generating alpha." In AMG's third-quarter earnings call, Chairman and CEO Sean Healey described all three firms as having "excellent prospects for growth" while noting that "we can further enhance their respective forward opportunity sets" through the company's U.S. and global platforms. AMG also made investments in two U.S. wealth firms last year *(see Wealth)*.

In a year in which activist investors entered the media radar screen in the U.S., Neuberger Berman acquired a 20%

stake in activist hedge fund **Jana Partners**. Neuberger cut the deal through its alternatives subsidiary, Dyal Capital Partners, with the capital to be invested in Jana funds. According to the *Wall Street Journal*, the deal valued Jana at $2 billion. A long-short investor that began life 15 years ago with $17 million in assets and the backing of high-profile hedge fund manager Leon Cooperman, Jana has $11 billion in AUM and a reputation for seeking quiet resolutions with companies it targets, as opposed to public spats. As founder Barry Rosenstein told *Barron's* in 2014: "I always say to the CEO, 'You could take our ideas and make them your own and be the change agent. The alternative is you could fight us, but you're going to end up in the same place anyway.'" The number of activist funds has grown sharply in recent years to more than 70, according to HFR, with many of them pursuing similar agendas against the same companies, often larger ones that can pose greater challenges for success.

In a second deal, Dyal acquired a 10% stake in **Chenavari Investment Managers**, a London credit and structured finance investor with $5.4 billion in AUM and a focus on Europe and Asia. Dyal said Chenavari is "very well-positioned to benefit from the opportunity set related to European banks' deleveraging, around investment strategies in credit and private debt markets" while Chenavari cited the benefits of strengthening institutional relationships. Chenavari Toro Capital IA, a European asset-backed-securities fund started in 2009, has capitalized on post-financial-crisis mispricing in the European credit markets to consistently rank among the top hedge fund performers.

There were multiple additional deals involving minority purchases of hedge funds, including two by leading alternatives firms. In the larger of those two deals by target size, KKR & Co. bought a 24.9% interest in London hedge fund **Marshall Wace**, a cash-and-share deal that reportedly valued the KKR shares alone at nearly $150 million at the time of the announcement. KKR has the option to increase its ownership to 39.9% over time. Founded in 1997, Marshall Wace has $22 billion in AUM, making it one of Europe's largest hedge funds, with investments primarily in long-short equity strategies. KKR has $10 billion in hedge fund assets, but Scott Nuttall, head of global capital and asset management, told the *Financial Times*, "Building one-off direct hedge funds wasn't going to fully meet out clients' needs or fully leverage our platform." KKR established its hedge funds business in 2012 with the acquisition of fund of funds provider Prisma Capital Partners. KKR also holds minority stakes in two other specialist firms.

In the second hedge fund deal featuring a major buyer, Blackstone Group acquired a stake in **Magnetar Capital**, an event-driven, energy and fixed income investor with $13.6 billion in AUM. Blackstone made the deal though its $3 billion Strategic Capital Holdings fund, which buys minority shareholdings in hedge funds. Founded in 2005 by Alec Litowitz, former global head of equities at **Citadel**, Illinois-based Magnetar made news for its profitable hedges against mortgage-backed securities during the financial crisis — as well as the role it played in helping to package such securities. Magnetar's assets have doubled since the crisis. In a statement to Bloomberg, Litowitz said the Blackstone deal "will help us achieve the firm's strategic objectives, which include continuing to attract and retain key talent, increasing our investment in our funds, and deepening our relationship with a leader in the alternative asset management sector." Blackstone, an early investor with Magnetar, reported record AUM of $68 billion in its Hedge Funds Solutions business in the second quarter of 2015.

In a third minority deal involving a high-profile buyer, hedge fund manager Brevan Howard Asset Management of the U.K. acquired a 25% stake in New York's **Penso Advisors**. Penso, with $3.1 billion in assets under management and

In another deal involving a large hedge fund, the family office of tech billionaire Eric Schmidt acquired the 20% stake in D.E. Shaw held by the Lehman Brothers estate

advice, provides risk assessment and hedging strategies for institutions via customized risk hedging overlays and negative correlated alpha programs. The firm was founded in 1997 by Ari Bergmann, the former head of the Bankers Trust derivatives desk and risk merchant bank and an early innovator of derivative products. Brevan Howard was facing its own challenges as the 2015 year began, with its flagship macro Master Fund coming off the first year of negative returns in a 12-year history, while also reportedly suffering significant outflows.

In another deal involving a large hedge fund, the family office of tech billionaire Eric Schmidt acquired the 20% stake in **D.E. Shaw** held by the Lehman Brothers estate. Schmidt is executive chairman of Google and a longtime investor in Shaw's quantitative funds. According to media reports, the family office, **Hillspire**, paid $500 million, which will in turn give it a piece of Shaw's profits. Schmidt praised the firm for successfully using technology "to deliver superior risk-adjusted returns across asset classes globally." In a bid to extend its offerings in the growing liquid alternatives space, **Salient Partners** acquired **Forward Management**, which includes several such products among the $6 billion in assets it manages. Forward, founded in 1998 and based in San Francisco, also provides Salient with a strong retail base to complement its institutional orientation. Salient, which dropped the Forward name in favor of its own branding, said the "combined platform will add scale, reach and depth to all areas of our business, helping us support institutional investors and financial advisors nationwide." Houston-based Salient manages a broad portfolio of alternatives and has $21 billion in assets. Billionaire Gordon Getty, majority owner of Forward, had been seeking a buyer for some time. Liquid alternatives jumped from $27 billion in assets in 2008 to $304 billion by 2014, according to Morningstar, and PwC figures demand for the products will reach $664 billion by 2020, with the retail market playing an increasingly large role and defined contribution plans becoming a target area.

As it sat on a record $1.35 trillion in "dry powder" worldwide as of the third quarter of 2015 — $400 billion more than at year-end 2012 — the private equity industry was facing a veritable embarrassment of riches. That pile of money speaks to the industry's success in fundraising, renewed institutional demand for the investment vehicles following a dip after the financial crisis, but also to the limited number of attractive buyouts. In the first three quarters of 2015, the industry raised $385 billion, according to Preqin, and an EY survey of capital plans by chief financial officers showed that 46% plan to allocate more capital to private equity over the next two years while only 4% plan to decrease investment (46% plan no change).

Among transactions involving private equity targets, the largest such announced deal was quickly terminated: Ares Management's $2.55 billion purchase of Kayne Anderson Capital Advisors

Carlyle Group offers a window into the challenges private equity firms are facing in deploying their capital. In its 2015 second-quarter conference call, Co-CEO David Rubenstein said fundraising since 2013 has been the strongest in Caryle's history, outside the "unique, if not anomalous 2007-2008 period." But Co-CEO Bill Conway also told analysts that Carlyle had invested only $3.1 billion in the first half compared with a recent annual average of $10 billion. "There are several factors behind this year's cautious investment pace," Conway said. "Most importantly, we think prices in many asset classes are high." He also cited global economic and political uncertainty, along with the competition from corporations for acquisitions. At the same time, Conway expressed a belief that "current conditions will serve as catalysts for the next round of buying opportunities, and while we cannot predict when all these opportunities will present themselves, the breadth of our platform and our dry powder positions us to take advantage when the time comes."

Among transactions involving private equity targets, the largest such announced deal was quickly terminated: **Ares Management**'s $2.55 billion purchase of **Kayne Anderson Capital Advisors**. The proposed transaction between the two Los Angeles firms, announced in July and pulled in October, would have created a combined company with $113 billion in AUM; however, it fell victim to volatile energy markets. Kayne, the smaller of the two firms, has significant investments in midstream public equities and upstream private equity, including the largest U.S. closed-end master limited partnership. In announcing the cancellation, Ares said the two companies "had different views as to how best to proceed with the business combination in response to the current market conditions in the energy sector."

Otherwise, private equity deals were modest. Within the U.S., Denver-based **ALPS** agreed to pay as much as $65 million for another Colorado firm, **Red Rocks Capital**, an investor in publicly traded private equity firms and other private assets. The transaction consists of $45 million in cash and up to $20 million in performance-related payments. ALPS creates investment products and customized servicing solutions for financial services firms. Red Rocks, which stakes a claim as the first firm to package listed private equity products in a 40 Act structure, manages $1.8 billion in assets in mutual funds, subadvised relationships and separately managed accounts. These include the ALPS/Red Rocks Listed Private Equity fund, which manages $500 million in AUM in some 30 to 50 holdings diversified by stage of investment, geography, industry and capital structure. In a 2105 first-quarter conference call, ALPS described Red Rocks' revenue as being "less than $10 million" with AUM growth over the past three years around 20%. ALPS is part of information processing and servicing solutions firm **DST Systems**.

A transatlantic deal saw French private equity firm **Ardian** acquire **General Electric**'s private equity investment group, according to Bloomberg, although neither firm would comment on the deal. GE has $1 billion in AUM in a variety of industries, with investments generally capped at $15 million. In 2014, Ardian acquired a $1.3 billion portfolio of GE limited partnership private equity interests, in line with similar private equity portfolio purchases it has made since the financial crisis. Ardian, with $50 billion in assets managed and advised, was formerly the private equity unit of **AXA** until a management buyout in 2013 led by CEO Dominique Senequier. The deal, if correct as reported, would be in sync with GE's divestiture of assets in its once-formidable financial unit. GE also sold most of its real estate portfolio and direct lending business last year.

In two private equity deals involving minority share purchases, **Hamilton Lane** bought back the interest of **Cascade Investment**, which manages the wealth of Bill Gates, while **Wafra Investment Advisory Group** acquired a 10% stake in **TowerBrook Capital Partners**. For Hamilton, with $34 billion in alternative AUM and another $198 billion in advisory assets, the deal positions employees as the dominant shareholders. "We are strong believers in the power of broader employee ownership — something all-too-rare in our industry," said Hamilton Lane CEO Mario Giannini. "We see this transaction as the logical next step in our firm's evolution." Cascade acquired the shares in 2003. According to the *Wall Street Journal*, TowerBrook cut the deal with Wafra to free up capital for investments in its own funds. TowerBrook was founded 11 years ago by alumni of **Soros Fund Management**; it makes controlling investments in large and middle-market North American and European firms. Wafra, an alternative investment arm of Kuwait's social security system, made the purchase through one of its private equity funds.

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