Berkshire Capital Securities LLC

Investment Management Industry Review

2007

Mission Statement

"Our mission is to advise clients on the initiation and execution of successful mergers, acquisitions, divestitures, joint ventures and other alliances in the financial services industry"

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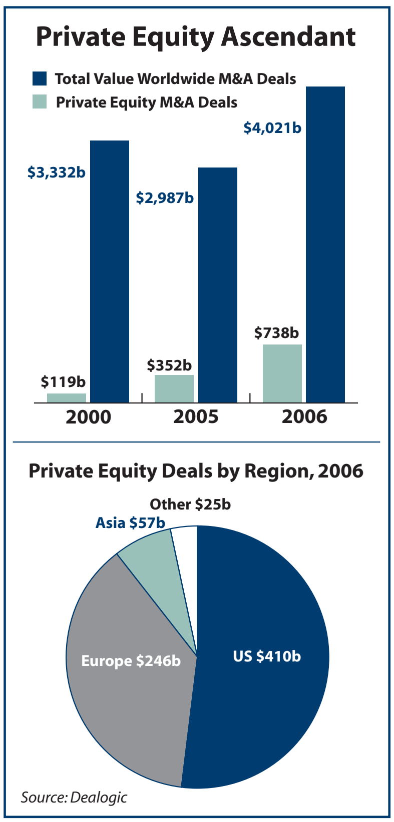
Private Equity Comes Calling

As a vice chairman of General Electric, 49 year old David Calhoun stood at the pinnacle of success in corporate America, with responsibility for the company's largest division. A 27-year GE veteran who joined right out of college, Calhoun summed up his career for Fortune magazine in early 2006 by saying, "My heart and soul are in GE."

That was before the private equity kings came calling later in the year. Now, Calhoun is CEO of VNU Group, the Dutch marketing information and media firm taken private last year for nearly $10 billion by a Who's Who of private equity firms, including **Blackstone Group**, **Carlyle Group**, **Hellman & Friedman**, **Kohlberg Kravis Roberts** and **Thomas H. Lee Partners**. Freed from the scrutiny of regulators and layers of pesky shareholders, Calhoun need only please VNU's short list of investors, who have promised to make him very rich (to the tune of $100 million by most accounts).



Source: Dealogic

Calhoun's transition from loyal corporate soldier to private equity soldier-of-fortune is emblematic of the continuing shift in the post-bubble investment landscape. As capital worldwide seeks out higher returns than can be gained from low-yielding bonds and uncertain stock markets, alternative investments are all the rage. **JP Morgan** figures alternative assets have climbed by a third since 2004, to $3 trillion, including $900 billion in private equity and $1.2 trillion in hedge funds, though one industry observer, *HFM Week,* places hedge fund assets as high as $2 trillion.

Private Equity Intelligence says the industry it covers raised more than $400 billion last year. Accordingly, private equity firms set new deal thresholds in 2006 with the acquisitions of real estate investment trust **Equity Office Properties Trust** ($39 billion including debt) and U.S. hospital chain HCA ($33 billion with debt). David Rubenstein, co-founder of Carlyle Group, told the *Financial Times* that a $100 billion private equity deal could happen by 2008. "I've never seen a market with this much liquidity and capital available," opined legendary KKR founder Henry Kravis.

Liquidity indeed. Blackstone Group set a record for a new private equity fund by raising $20 billion — a number that many observers expect to be eclipsed soon enough. **Texas Pacific Group** wasn't too far behind with a $15 billion fund. Prominent American financier Christopher Flowers committed $200 million of his own money to his JC Flowers II buyout fund. In the 12 months through July, Carlyle Group raised $4.8 billion for buyout funds in Asia, including the largest-ever such fund in Japan, and then made preparations to raise up to $15 billion next year in a new U.S. fund. Within three months, **Permira Advisers** had pulled together the largest European private equity fund, of $14 billion. Everyone, it seemed, was looking for a piece of the pie. **Bear Stearns** raised $2.7 billion for private equity investments, **Citigroup** $2.5 billion, **Credit Suisse** $2.1 billion and **Lehman Brothers** $1.5 billion.

Many Happy Returns

Major Stock Market Indices

	2006 Final Index	Gain vs. 2005
DJIA	12,463	+16.3%
S&P 500	1,418	+13.6%
Nasdaq	2,415	+9.5%
Russell 2000	788	+17.0%
FTSE 100	6,221	+10.7%
DJ Euro Stoxx	390	+17.8%
Nikkei 225	17,226	+6.9%

Amid the dash to alternatives, investors were reminded of the risks with the liquidation of hedge fund **Amaranth Advisors** and the $6 billion or so in assets it lost by betting wrong on the direction of natural gas prices. Unlike the 1998 debacle involving Long-Term Capital Management, which threatened the health of the global financial system and forced intervention by the Federal Reserve, the Amaranth crisis was defused quickly as other investors scooped up the firm's positions at what were viewed as attractive prices.

Where's all the money coming from? To a large extent, from yield-hungry institutions facing the press of commitments made to the coming wave of retiring baby boomers. This is a particularly critical issue for public pension systems that are often legally bound to make good on their promises — an obligation that could ultimately force politicians to raise taxes if shortfalls occur. Among the public pension systems investing in Blackstone's $20 billion fund were the **California Public Employees Retirement System**, the **California State Teachers' Retirement System**, and the **Canada Pension Plan**. A number of public pension plans now allocate more than 10% of their portfolio for private equity investments, including the $21 billion **State of Connecticut Retirement Plan**, with an 11% target. The seemingly bottomless pockets of the wealthy are another source of capital for private equity and other alternative investments.

Gains All Around

GDP growth

	2005	2006*	2007*
U.S.	3.2	3.4	2.9
Euro Area	1.4	2.6	2.1
U.K.	1.9	2.7	2.7
Japan	2.6	2.7	2.1
China	10.2	10.0	10.0
Global	4.8	5.1	4.9
World Trade **	7.4	8.9	7.6

* Projected ** Goods & services

Sources: IMF, European Commission

This liquidity speaks volumes about the generally robust state of the U.S. and global economy. The IMF estimates worldwide economic growth hit 5% last year, matching the solid rates of growth. In the U.S., 2006 GDP growth was projected at around 3.4%, and a solid jobs report at year-end combined with positive comments from the Federal Reserve were taken as signs that in 2007 the economy could weather a housing downturn. Profitability among the largest corporations remained remarkably strong in 2006, with the S&P 500 delivering double-digit gains through the first three quarters and bringing the double-digit profit growth streak to 13 consecutive quarters. Financial firms delivered solid results, with Thomson Financial projecting 20% profit growth for the sector for 2006. Following the tepid performance of stocks in 2005, two of the three major U.S. indices produced double-digit returns in 2006.

Europe finally awoke from its long slumber, with the European Commission projecting 2.6% GDP growth in the eurozone, compared with the average 1.4% of recent years. Corporate Europe's profits rose 14%, investment and business confidence were both up, and resistance to cross border mergers was down. As was the case with the Dow Jones Industrial Average, Europe's key indices showed double-digit returns in every major market. In Asia, Japan's economy is projected to have grown a reasonable 2.7%, though a downward revision of third-quarter growth cast some doubt on the recovery's strength. China continued to register torrid double-digit GDP growth that outstripped the government's ability to contain it, while building foreign reserves approaching $1 trillion, double the level just two years ago.

Indicative of its growing financial clout, China is now the second-largest foreign holder of U.S. Treasuries ($277 billion as of June 2005) behind Japan, and is closing in on the U.K. as the second-largest investor in U.S. securities of all types ($527 billion, though China's equity holdings amount to just $3 billion, according to U.S. Department of Treasury data). China also served up one of the most robust IPO markets worldwide, with three of the nation's four big banks going public, including the $21 billion listing for **Industrial & Commercial Bank of China**.

With the global economy humming along and a powerful scent of money in the air, mergers and acquisitions worldwide reached a record $4 trillion, beating the previous high of $3.3 trillion set in the frenzied year of 2000, according to Dealogic. During just two days in November (19-20), $75 billion in deals were announced. For the second year in a row, Europe challenged the U.S. for supremacy as a deal center, accounting for $1.6 trillion in transactions. Private equity firms accounted for 18% of deals last year, and the number of hostile bids also rose sharply, to approximately $350 billion. With profits at record levels, financing cheap and valuations near historical norms, 60% of acquisitions were paid for in cash, twice the level of 2000.

Record Breaker

Mergers & Acquisitions

Number of Announced Deals	2005	2006
Worldwide	30,640	31,965 (+4%)
U.S.	7,905	7,214 (-10%)
Europe	11,176	11,284 (+1%)
Finance & Insurance Sector (Worldwide)	2,715	2,868 (+6%)
$1 Billion-Plus Deals (Worldwide)	480	687 (+43%)
Value ($ billions)	**2005**	**2006**
Worldwide	2,988	4,021 (+35%)
U.S.	1,180	1,544 (+31%)
Europe	1,127	1,594 (+41%)
Finance & Insurance Sector (Worldwide)	459	609 (+33%)
$1 Billion-Plus Deals (Worldwide)	1,893	2,706 (+43%)

Source: Dealogic

The asset management industry joined in the party, registering a record $47.2 billion in deals, easily beating the 2000 record of $36.4 billion and more than double the level recorded in 2005. The number of deals, at 167, also set a new record, while the transfer of AUM topped $2 trillion for the first time. The top 10 transactions accounted for $37.9 billion in value, compared with $12.2 billion in 2005, including the largest-ever pure asset management deal, between **BlackRock Inc.** and **Merrill Lynch & Co.**

Coming on the heels of the 2005 Citigroup-Legg Mason transaction and the divestiture by **American Express** of its asset management and securities distribution arm, the transaction supplied further proof of both the consolidation in the mutual fund industry and the acknowledgment by some diversified financial firms that active fund management no longer makes strategic sense — though Merrill kept its hand in the game through a 49.8% stake in the enlarged BlackRock.

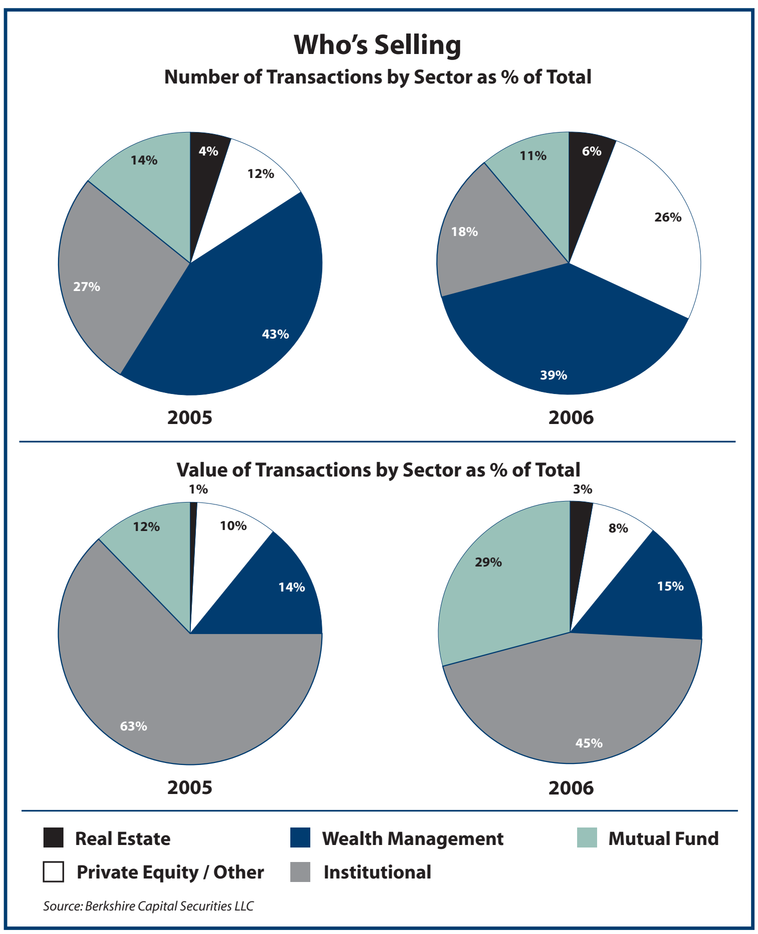
Investment Management Transactions

	2002	2003	2004	2005	2006
Majority Equity	119	116	119	124	150
Minority Equity	16	10	8	9	12
Management Buyout	8	9	6	6	5
Total	143	135	133	139	167
Total Transaction Value ($b)	10.3	9.3	10.7	19.3	47.2
Total AUM Changing Hands ($b)	548	375	720	1,202	2,340

Source: Berkshire Capital Securities LLC

Bank of New York's $16.5 billion acquisition of **Mellon Financial** created a custody powerhouse, but also included a major asset management component, as the combined entity became the 10th-largest global money manager and No. 5 in the U.S. The combined firm derives 29% of its revenues from asset management, with Mellon accounting for approximately 80% of the $1.1 trillion in AUM. In a third major transaction, **Charles Schwab** abandoned its six-year-long quest to manage **U.S. Trust**, selling the venerable wealth manager for $3.3 billion to **Bank of America**. For BoA, U.S. Trust provides a strong entrant in the coveted higher end of the wealth market, an arena it has been seeking to penetrate with mixed results.

A familiar list of other buyers showed up again last year, including **Affiliated Managers Group**, **Boston Private Financial Holdings**, **Deutsche Bank**, **Federated Investors** and **UBS**. There were some newcomers as well, including an ambitious start-up, **Focus Financial Partners**, a New York wealth manager backed by private equity firm **Summit Partners.** Other firms in the market were **Caledonia Investments**, **FT-Ventures** and **Hellman & Friedman Advisors.**



A number of insurers reassessed the value of active fund management, in whole or part, including **Nationwide Mutual Insurance** of Ohio, which abandoned its onetime goal of building a global footprint by divesting the international operations of its London-based mutual fund manager, **Gartmore Investment Management** (AUM: $45 billion), and reached a "preliminary understanding" on the sale of its U.S. retail mutual fund business. **Sun Life Financial** and **Marsh & McLennan** placed their two large fund managers on the block, **MFS Investment Management**, **Putnam Investments**. Marsh & McLennan reached an agreement with **Power Corporation of Canada** to sell Putnam for nearly $4 billion in December 2006.

In a sign of its growing maturity, the hedge fund and fund of funds arenas registered a record number of deals and drew some of the world's largest financial firms as buyers. The most active, **Morgan Stanley**, made four investments in hedge funds in the U.S. and U.K., in line with the Chairman and CEO John Mack's pledge to expand the company's alternative capabilities. Other established financial services firms in the market included **ABN Amro**, **American International Group**, **Credit Suisse**, **Fortis**, Merrill Lynch and **Rabobank Groep**.

Europe's leading financial center, London, was a magnet for deal-makers in the alternatives sector, including Morgan Stanley's investment in **Lansdowne Partners**. **Aspect Capital**, **NewFinance Capital** and **Northwest Investment Management** were among the other U.K. hedge funds or fund of funds that linked up with larger firms. In the busy wealth management sector, **EFG International** of Switzerland acquired **Harris Allday** of

Birmingham, England, while **Deutsche Bank** acquired the U.K.'s fourth-largest independent wealth manager, **Tilney Investment Management**.

The mutual fund industry on both sides of the Atlantic enjoyed a solid year in 2006. Inflows for Europe's UCITS mutual funds — which can be marketed in all EU countries and account for 80% of the continent's funds — rose 36% in the first half of 2006 to $310 billion, according to the European Fund and Asset Management Association. Significantly, two-thirds of the money was heading into equity and balanced funds, compared with one-third in 2005 (total assets in UCITS are $7 trillion). In the U.S., mutual funds passed the $10 trillion mark thanks to rising markets and strong inflows.

While several diversified financial companies reviewed their commitment to this industry, money management giant Federated Investors continued to expand its exposure to active fund management through the acquisition of three more small firms, bringing to six the number of mutual fund managers it has purchased since 2005. The fast-growing exchange traded funds arena recorded a couple of major deals: **Amvescap PLC** purchased **PowerShares Capital Management** and vaulted into the No. 4 position in that market; and **Barclays Bank**, the leader in the global ETF market, became No. 1 in Germany by acquiring **Indexchange Investment**.

The institutional sector was notable for the large number of dynamic small-to-mid-sized firms that went on the block, including **Institutional Capital Corp.**, **MDT Advisers** and **Walter Scott & Partners**. **TIAA-CREF** made news with the first acquisition in its long history, of **Kaspick & Co.**, a leading provider of planned-giving services for universities and other nonprofits.

With stock markets ascendant again, money plentiful, and economies generally sound, asset managers enjoyed solid earnings and stock performances in 2006. The shares of the 14 publicly traded asset managers within the Dow Jones U.S. Total Market Index rose by an average of nearly 16% year-to-date through early December, nearly double the performance of banks and four points higher than the S&P 500 Index. Earnings mirrored the stock performance. For example, net income at Affiliated Managers Group and **T. Rowe Price** rose 27% and 22%, respectively, during the first nine months of the year.

Who's Buying

	2002	2003	2004	2005	2006
Bank	49	32	43	35	39
Wealth Manager	15	12	18	16	24
Institutional	17	13	19	19	20
Financial	5	3	8	6	18
Securities Firm	11	11	7	9	14
Insurance Co.	15	9	4	7	13
Mutual Fund	15	20	7	13	11
Real Estate Manager	1	2	1	4	6
Trust Company	2	9	3	8	6
MBO	8	9	6	6	5
Other	5	15	17	16	11
Total	143	135	133	139	167

Source: Berkshire Capital Securities LLC

Although the value of asset management deals exceeded the record set in 2000, buyers on the whole continued to exhibit a far greater level of prudence in cementing deals than they did six years ago. In 2000, Nationwide Mutual Insurance symbolized the "exuberant" attitude among many buyers when it paid 57 times EBIDTA, or $1.6 billion, to acquire **Gartmore Investment Management**. Last year, it sold the U.K. firm to management and private equity investor Hellman & Friedman for a price believed to be a little over half what it paid. In the transaction between Amvescap and ETF dynamo PowerShares Capital Management, 90% of the potential price of $730 million is wrapped up in a series of incentives that play out over five years. Within the very active hedge fund space, many buyers also exhibited caution by dipping their toes in the water through minority stakes.

Last year was also notable for the record number of initial public offerings of asset managers. This included several hedge funds that either went public or announced plans to do so, in a reflection of the industry's coming of age. In the first such action in the U.S. by a hedge fund, **Fortress Investment Group** (AUM: $26 billion) in November filed to go public in a deal that values the firm at nearly one-third of AUM. The IPO raised more than $634 milion and has been very well received by the market.

In London, **BlueBay Asset Management** (AUM: $8 billion) raised more than $1 billion in its IPO, while another London hedge fund manager, **Marshall Wace**, raised $2.2 billion for the listing of its **MWTops** fund, in what is seen as the first of many such efforts to float individual funds. In a similar alternative fund-raising initiative, **Citadel Investment Group** (AUM: $13 billion), the Chicago hedge fund run by billionaire Kenneth Griffin, sold $500 million worth of five-year investment-grade bonds that provide a yield of 190 basis points over comparable Treasuries. An emerging markets fixed-income specialist, **Ashmore Group** of London (AUM: $21 billion), raised nearly $500 million in its IPO.

The deal and IPO activity underline both the promises and challenges facing the asset management industry. Looming retirement is forcing baby boomers to accelerate their savings and investments and institutions to bolster their performances, while a fraying retirement safety net means today's college graduates need to plan in their 20s for their financial well-being at the end of their careers. The ability to capitalize on opportunity is not widespread, however.

Within the mutual fund industry, Bobroff Consulting estimates that the top 10 firms have close to 50% of assets and the top 60 hold 90%. The investment game is also changing, as traditional asset managers have seen their share of new flows drop from 93% to 78% between 2001 an 2004, with alternative managers providing the competition, according to a recent study from McKinsey & Co.

Numerous studies have validated the increasing pressure on fees, while the McKinsey study underscores the greater ability of large asset managers to weather that challenge: firms with $100 billion-plus in AUM spend an average of 7 basis points per asset on investment management, compared with 11 basis points for firms with less than $25 billion in AUM. The tie-ups between already-large firms and their emergence as global giants also point to the increasing importance of scale not only in domestic markets but across the world.

While the numbers and evolving landscape don't add up to a world with a handful of mega-firms at the top and a few niche players competing for the crumbs at the bottom, it does provide a strong indicator that active deal-making, whether it involves outright sales or strategic partnerships, will remain with us for a long time to come.

Here are some of the trends we see continuing in 2007:

- Increased likelihood of firms going public, particularly those in the alternative sector
- Continued concentration of manufacturing in some firms separate and distinct from client servicing and marketing/ distribution
- Pressure on fees of alternative managers will be a topic but not an event because of the demand. However, institutional investors are likely to bring greater discipline to this market
- Greater cross-border activity as larger firms seek to meet the needs of their client base and strong economies support the growth
- Further consolidation in the wealth management market as the capital and services of larger players increasingly push small firms beyond their economic comfort zone

H. Bruce McEver
Chairman

R. Bruce Cameron
President

Wealth Management

In their most recent "World Wealth Report," Capgemini and Merrill Lynch highlight the phenomenal growth in the ranks of the world's millionaires since the mid-1990s, a time period that has seen the number of individuals worldwide with at least $1 million in investible assets nearly double to 8.7 million. In the 10 years through 2005, the wealth of that group also doubled to $33 trillion — larger than the aggregate GDP of the world's major economies. The report projects continued strong gains in the five years through 2010, with millionaires' assets growing an average of 6% annually, to nearly $45 trillion.

As their numbers and wealth have grown, the rich have also begun to play the field. A survey by Boston Consulting Group revealed that the world's high-net-worth individuals employ an average of nearly three private banks to manage their money, a strategy that allows them to spread risk and tap a range of expertise. While this approach represents a departure from the tradition of one person-one private bank, the growing pool of money leaves plenty on the table for everyone.

Still, in the sector's largest deal last year, the broker for everyman, **Charles Schwab**, decided to abandon its six-year-long experiment managing **U.S. Trust** (AUM: $94 billion). Schwab sold the firm for $3.3 billion to **Bank of America**, at an attractive 30 times 2006 earnings, leaving the broker with a pretax gain of $1.9 billion that it plans to use for business expansion and share buybacks.

The wealth management sector as a whole recorded another record breaking year in 2006.

For BoA, which managed $167 billion in private banking assets prior to the deal, U.S. Trust provides a strong entrant in the coveted higher end of the wealth market, an arena it has been seeking to penetrate with mixed results. U.S. Trust's clients average $7 million per account, five times the level at BoA. However, operating margins at BoA's private bank are twice as high, at 44%, underlining both the disappointing performance of U.S. Trust under Schwab and the potential BoA sees for gains. Kenneth Lewis, chairman and CEO of BoA, said the acquisition enhances the bank's "credibility" in the wealth market and "significantly advances our capabilities to serve ultra-high-net-worth clients and adds scale to our private banking business."

Driven by the U.S. Trust transaction, the wealth management sector as a whole recorded another robust year in 2006, with 65 transactions valued at $7.2 billion. The average deal size, at $111 million, more than doubled over 2005. In an indication of the widespread allure of wealth management, the names of buyers included familiar global giants such as **UBS** and **Mellon Financial**, along with smaller local players and start-ups.

Prior to acquiring U.S. Trust, BoA fine-tuned its wealth business by completing the national rollout of its Family Wealth Advisors division (for those with $50 million-plus in assets) and divesting two businesses serving non-American clients. In the first deal, **BNP Paribas** of France acquired 2,000 non-resident BoA wealth management clients with a total of $2 billion in AUM, in the process doubling its non-resident wealth business in the U.S. BNP said the transaction is in line with its "strategy to further develop its private banking franchise in selected international markets".

Wealth Management Transactions

	2002	2003	2004	2005	2006
Number of Transactions	50	51	64	59	65
Combined Value ($b)	2.0	6.3	2.1	6.2	7.2
Total Seller AUM ($b)	63	189	94	119	284
Average Deal Size ($m)	39	124	33	106	111
Average Seller AUM ($b)	1.3	3.7	1.5	2.0	4.4

Source: Berkshire Capital Securities LLC

In the second and larger deal, **Banco Santander Central Hispano**'s private banking unit acquired 6,000 of BoA's Latin American clients based in the U.S., adding $3.5 billion in assets and deposits to the $30 billion in AUM it already managed in Latin America. In 2005, the Spanish bank enjoyed double-digit growth in revenue and income from its private banking business.

Mellon Financial, one of the busiest deal-makers in the sector in recent years, acquired **U.S. Trust**'s Planned Giving Services group (AUM: $700 million), which has offices in North Carolina and Oregon. The addition positions Mellon on par in the planned giving services area with Kaspick/TIAA-CREF. Mellon's mega-deal with **Bank of New York**, while driven by the potential it holds for the combined firm's enormous custody business, also involves a significant wealth management component. On a pro forma basis, the enlarged company has $152 billion in AUM for wealthy clients, making it the ninth-largest wealth manager in the U.S., ahead of **Goldman Sachs** (Mellon accounts for $92 billion of the assets). The new firm also has 77 offices throughout the U.S. Private banking and asset management are far more significant businesses at Mellon, however, accounting for more than half of 2005 pretax income, compared with 8% at BNY.

Lehman Brothers, which in 2003 made the transformational acquisition of wealth manager **Neuberger Berman**, added an established New York firm to its wealth portfolio, **H.A. Schupf & Co.** (AUM: $2.5 billion). Lehman touted the company's "in-depth research" capabilities and long-term investment track record. New York-based **Focus Financial Partners** received the backing of private equity firm **Summit Partners** and set up shop last year via the merger of four wealth managers in four states (total AUM: $3.5 billion), a link that points to the growing interest among private equity players in the wealth sector. Soon after, Focus made additional acquisitions of San Diego-based **HoyleCohen** (AUM: $300 million), a four-year-old firm with high-net-worth clients in Southern California, and 16-year-old **Resnick Investment Advisors** of Connecticut (AUM: $400 million).

Focus' strategy involves taking a 40% to 60% stake while leaving the partner firm autonomous and providing back-office services in such areas as marketing, human resources and technology. The firm's plans call for 30 to 50 acquisitions in the years ahead with a goal of amassing $25 billion in AUM. For U.S.- and U.K.-based Summit, Focus represents its second investment in as many years targeting the wealth market: in 2005, it paid $127 million for a one-third interest in California's **Coast Asset Management**, an established fund of hedge funds manager.

New York-based private equity firm **Circle Peak Capital** made its first investment in the asset management industry by acquiring and recapitalizing **WealthTrust, Inc.**, which holds majority interests in 10 affiliated wealth managers with a total of $6.5 billion in AUM. In concluding the deal with WealthTrust parent **Morgan Keegan & Co.** (part of **Regions Financial Corp.**), Circle Peak was joined by junior capital-provider **Falcon Investment Advisors** and WealthTrust management. Based in Nashville and established in 1997, WealthTrust provides back office and marketing assistance to its affiliates, generally firms in the Southeast with $1 billion in AUM. Just a day after the Circle Peak announcement in November, WealthTrust acquired **DeGreen Wealth Management** of Arizona (AUM: $560 million), extending its presence into the growing Southwest market. The deal with DeGreen was WealthTrust's first since 2004 and is an indicator of the more aggressive expansion strategy the company plans to pursue under its new ownership.

The efforts of many smaller banks to enhance their wealth management capabilities were underscored in a number of U.S. deals involving only a few hundred million dollars in assets. These include **Contango Capital Advisors**' acquisition of **BG Associates**, an established Phoenix firm with more than $300 million in AUM. Started up in 2004 by a fast-growing Utah bank, **Zions Bancorp**., Contango provides wealth management services to customers in 10 Southwest and Western states and had $170 million in AUM prior to its acquisition of BG. Said BG Associates President Jim O'Connor: "Contango broadens our capacity to advise in areas such as financial, tax and business-succession planning, as well as offer trust services." On the East Coast, **Provident New York Bancorp** acquired **Hudson Valley Investment Advisers** (AUM: $200 million) to enhance the services it provides high-net-worth clients and strengthen the non-interest income side of its business.

Two of the largest transactions in the Americas last year took place in Brazil, both involving European-based buyers. In a billion-dollar-plus deal with a significant wealth management component, UBS acquired **Banco Pactual SA**, a privately held investment bank and asset manager with $4.6 billion in AUM in its wealth unit and an additional $18.6 billion in AUM in its asset management group. UBS CEO Peter Wuffli called Brazil "one of the world's fastest-growing financial markets and therefore a key focus area for UBS," saying the combination of the two firms provides an "unrivaled platform for the business to grow in Brazil and throughout Latin America".

The initial payment of $1 billion could ultimately reach $2.6 billion, based on performance incentives, which would make Banco Pactual UBS' largest acquisition since Paine Webber in 2000. In 2004, UBS acquired the wealth business of **Dresdner Bank Lateinamerika**, with some $6 billion in AUM and a presence in numerous Latin American markets. (Last year in the U.S., UBS also opened its first office dedicated to serving ultra-high-net-worth clients.)

Credit Suisse, which divested its Winterthur insurance business last year, acquired a majority interest in a privately held Brazilian asset manager and securities firm with a significant wealth business, **Hedging-Griffo**. The 25-year-old Brazilian company manages $7.6 billion for high-net-worth clients and has enjoyed 39% annual growth in AUM in the past three years. The acquisition is in line with Credit Suisse's strategy of establishing its "onshore wealth management franchise in key growth markets around the world" and complements its pre-existing investment banking business in Brazil. According to the terms of the $294 million deal, Credit Suisse may acquire the rest of the firm after five years.

As in so many deals across industries, private equity players made their presence felt in the marketplace.

In Europe, deal-makers in Switzerland took a breather from the recent wave of consolidation in that market, but aggressive Swiss firm **EFG International** enhanced its operations with several European purchases, including two wealth managers. In the largest deal, EFG more than doubled its assets in the attractive U.K. market by acquiring **Harris Allday**, a venerable private client brokerage firm with $3.7 billion in AUM. Said Ron Treverton-Jones, senior partner of Harris Allday: "My colleagues and I remain ambitious to grow the existing Harris Allday franchise and believe that EFG Private Bank's highly complementary open-architecture platform gives us the best additional resources to do this." The number of individuals with $1 million-plus to invest rose by 7.3% in the U.K. in 2005, outpacing the 4.5% rate for Europe as a whole. The wealth of the very rich has also exploded in recent years, largely accrued by entrepreneurs and those in financial services.

EFG also expanded its operations in Southern Europe with the acquisition of Monaco's **Banque Monegasque de Gestion** (AUM: $1.1 billion), which it plans to merge with its existing local subsidiary. BMG had been owned by **UniCredito Italiano.** (Separately, EFG acquired fund of hedge funds manager **Capital Management Advisors**.) In 2005, EFG made three cross border private banking acquisitions and began trading on the Swiss stock exchange. In the first half of 2006, the company's profits and AUM ($43 billion) more than doubled, while the number of client relationship officers increased 79%.

Deutsche Bank crossed the English Channel to make the largest European wealth management deal last year, acquiring Liverpool-based **Tilney Group Ltd.**, the U.K.'s fourth-largest independent wealth manager, for a price reported to be around $660 million. Founded in 1836, Tilney has $12.6 billion in AUM and 15,000 clients; it has made numerous acquisitions itself in recent years as part of a product diversification strategy, including the private client division of **Clydesdale Bank** in January 2006. In 2005, Tilney was acquired by European private equity firm **Bridgepoint Capital** from bankrupt futures broker **Refco Group**. Deutsche, which has cited asset management as a key growth area, said the acquisition fits its strategy of expanding its onshore presence in core markets and into "various client segments, including the independent financial advisors sector".

Citigroup scooped up **Quilter**, a **Morgan Stanley**-owned wealth manager with $11 billion in AUM and 18,000 clients, for a reported $450 million. The deal doubles Citigroup's assets in the U.K. and makes it a top-10 wealth manager in that market. Todd Thomson, former chairman and CEO of Citigroup Global Wealth Management, said the addition of Quilter "is an important step in establishing a meaningful presence in the U.K., with an excellent platform to support further growth of our private bank and international Smith Barney business." As part of its effort to build its onshore wealth business in "priority markets," Citigroup is focusing on "strategic investments" in the U.S., U.K., Brazil, India and "Greater China." For Morgan Stanley, Quilter did not mesh with its emphasis on the higher end of the wealth market. Citigroup was among six banks bidding for Quilter, including Credit Suisse, Deutsche Bank and **Royal Bank of Canada**.

Companies continued to scour the globe for quality institutional managers.

The U.K.'s largest independent private client portfolio manager, **Brewin Dolphin** (AUM: $36 billion), picked up the final piece of Aberdeen Asset Management's private client business, a Scottish unit with $380 million in AUM. In 2003, Aberdeen sold its retail fund business and last year made the transformational deal for Deutsche Bank's global fixed income business, in line with its new institutional focus. London's **Rathbone Brothers** acquired **Dexia**'s U.K. private client and institutional business for as much as $26 million, adding $1 billion in AUM to the $18 billion it already manages.

Institutional

The institutional sector experienced another strong year in 2006, as a number of highly attractive small-to-mid-sized firms put themselves in play in deals that swapped product expertise for scale. Among them were Kaspick & Company, Institutional Capital Corp., MDT Advisers, Vanderbilt Capital Advisors and Walter Scott & Partners. Buyers ranged from asset management giants such as Federated Investors, Mellon Financial and Old Mutual Asset Management, to insurers like New York Life and Genworth Financial, to the massive pension company TIAA-CREF, which made the first acquisition in its 88-year history.

The drive to meet demand among institutional investors for a variety of products was also evident in the record number of deals involving alternative investment firms, in particular hedge funds and fund of hedge funds *(see Alternative Investment section)*. In a year when hedge fund assets reached $1.3 trillion, consultant Casey, Quirk & Associates and **Bank of New York** released a study projecting that institutions worldwide will invest more than $600 billion in hedge funds in the four years through 2010, accounting for half of hedge fund inflows during that period and taking institutional assets above the $1 trillion mark.

Not including alternatives, the institutional sector registered 30 transactions last year valued at $20.9 billion, a record that also exceeds the combined total of the previous four years. The transfer of AUM, at $1.2 trillion, continued the upward trend started in 2004. The largest deal, traversing the mutual fund and institutional sectors, involved the $9.8 billion transaction between **BlackRock** and **Merrill Lynch**. While most of the attention focused on the retail strength added by Merrill, BlackRock also touted the improved service, larger menu of products and greater international scale it could offer the institutions that defined its pre-existing business. Institutions account for 71% of the $1.1 trillion in assets managed by the combined firm *(see Mutual Funds section for more information)*.

As in so many deals across industries, private equity players made their presence felt in the marketplace. In the largest such transaction, **Hellman & Friedman** and Gartmore management teamed up to acquire the London-based operations of **Gartmore Investment Management** from **Nationwide Mutual Insurance**, which later reached a "preliminary understanding" to sell off Gartmore's retail U.S. funds *(see Mutual Funds)*. For a price that observers placed in the neighborhood of $900 million, H&F and management picked up $45 billion in AUM. This included $7 billion in hedge funds and the flagship AlphaGen Capella fund run by Roger Guy, a storied British money manager. Based in San Francisco, H&F now holds investments in a number of asset managers.

New York start-up private equity firm **Crestview Partners** and management at **Munder Capital Management** also joined hands to purchase **Comerica Inc.**'s 90% stake in Munder. The $302 million deal includes $25.1 billion in equity, fixed-income and money management AUM. Detroit-based Comerica, which acknowledged that it had earned only "low single-digit" returns from its 12-year investment in Munder, retains $15.9 billion in index-based assets held by Munder's **World Asset Management** unit. Run by **Goldman Sachs** alumnus Thomas Murphy and sporting an initial fund of $1.4 billion, Crestview invests in distressed and "out-of-favor" companies and industries.

Convergent Capital Management's acquisition of **Independence Investments**, part of **Manulife Financial**, also involved a partial stake for management. A 24-year-old institutional shop with $8 billion in AUM, Independence is an equity investor that has earned a reputation for merging strong research with quantitative analysis. The firm was started by **John Hancock Financial Services**, which was acquired by Manulife in 2004. For CCM parent **City National Corp.**, Independence becomes its 12th and largest affiliate, adding significantly to the $19 billion in assets it managed prior to the deal. Most of those affiliates are handled through Chicago-based CCM, acquired by City National in 2003.

While Manulife divested itself of an institutional business, another insurer, New York Life, acquired a well-established Chicago firm, Institutional Capital Corp. (AUM: $14 billion), an investor in U.S. and international equities. ICAP will operate as a stand-alone business within the framework of New York Life's "multi-boutique holding model". This marked the second institutional deal New York Life has concluded in two years: in 2005, it bought a high-yield asset management business with $3 billion in AUM. Since its creation in 2000, **New York Life Investment Management** has seen its AUM double to $220 billion.

Institutional Advisor Transactions

	2002	2003	2004	2005	2006
Number of Transactions	56	27	36	37	30
Combined Value ($b)	3.6	1.4	4.9	5.8	20.9
Total Seller AUM ($b)	294	118	550	642	1,168
Average Deal Size ($m)	65	54	136	158	695
Average Seller AUM ($b)	5.2	4.4	15.3	17.4	38.9

Source: Berkshire Capital Securities LLC

Insurer Genworth Financial was also a buyer, acquiring 10-year-old **AssetMark Investment Services** (AUM: $8 billion) as part of a bid to expand its turnkey asset management business. A leading provider of managed account services to investment advisors, broker dealers and banks, AssetMark offers eight no-load subadvised funds, boosts Genworth's AUM to $12 billion, and nearly doubles its network of investment advisors to 4,000. "The acquisition is consistent with our strategy to expand in the growing managed money and retirement income markets through independent advisors," said Pam Schultz, president and CEO of Genworth's Retirement Income and Investment business. Genworth, spun off from General Electric in 2004, is paying $230 million upfront, with earn-outs over five years that could boost the price another $110 million. The insurer wrapped its Genworth Financial Asset Management unit under the AssetMark name.

Federated Investors will pay up to $240 million for MDT Advisers, an 18-year-old Cambridge, Mass., company that manages $7.1 billion for institutions and individuals in separately managed accounts, using a proprietary quantitative investment process. The acquisition continues Federated's effort to extend its portfolio beyond money market funds, which account for nearly three-quarters of its $237 billion in AUM. With the addition of MDT's eight equity funds, Federated has $40 billion in equity assets under management. Last year, Federated also acquired three mutual funds *(see Mutual Funds)*. "Combining the proven investment acumen of MDT's team and process with Federated's distribution muscle will give our firm a powerful new growth opportunity," said Federated president and CEO Christopher Donahue.

A familiar deal-maker, **Boston Private Financial Holdings**, added an established value investor specializing in separately managed accounts, **Anchor Holdings** (AUM: $4.1 billion) to its portfolio of 13 majority-owned asset managers. In describing the $73 million deal, Boston Private cited the strong projected annual growth rate of the SMA market (16% to 18%). Boston Private left a minority stake (20%) with management, in line with its corporate strategy. (Separately, Boston Private raised its stake in Northern California wealth manager **Bingham**, **Osborn & Scarborough** to 49.7% from 40%.) **Affiliated Managers Group**, which follows a similar acquisition philosophy, purchased 60% of **Chicago Equity Partners** (AUM: $11.4 billion), a 17-year-old firm that seeks "superior long-term risk-adjusted returns" through its equity and fixed-income products.

Wachovia joined the growing ranks of firms leaving equity in the hands of existing management, taking a 70% stake in **Metropolitan West Capital Management** through its **Evergreen Investments** money management arm. MetWest, based in California, specializes in large-cap value equity portfolios and has $4.5 billion in AUM, in line with Evergreen's strategy of buying firms managing between $1 billion and $5 billion in assets. Evergreen has $253 billion in AUM, primarily in fixed-income and money market products. Old Mutual Asset Management exercised an option to acquire 60% of **Copper Rock Capital Partners** (AUM: $450 million), a small-cap equities firm started up in 2005 by several alumni of **State Street Research**. OMAM consists of 20 boutique firms with a total of $226 billion in AUM.

Pioneer Investments of Boston acquired employee-owned Vanderbilt Capital Advisors of New York (AUM: $13 billion), a specialist in separately managed fixed-income strategies and structured finance products, and a leader in the collateralized debt obligation market. Pioneer said the acquisition is part of its "global plan to grow our institutional business," calling Vanderbilt's products "valuable additions to our institutional suite of products." Pioneer, majority-owned by **Unicredito** of Italy, has acquired six asset managers since 2003.

TIAA-CREF stepped into the marketplace to make the first acquisition in its history, of Kaspick & Company, which with $3 billion in AUM is the leading provider in the U.S. of planned-giving services for universities and other nonprofits. Calling Kaspick "best in class" in its niche, TIAA-CREF chief executive Herb Allison said the transaction "furthers our strategic vision to serve the broad financial needs of colleges, universities and other nonprofits." Kaspick will operate as a subsidiary of TIAA-CREF, with the co-founders and senior management remaining in place.

Companies continued to scour the globe for quality institutional managers, with Mellon Financial's acquisition of Edinburgh-based Walter Scott & Partners (AUM: $27 billion) being a prime example. A global investment house that makes aggressive bets on growth stocks but follows a buy-and-hold strategy, Walter Scott has seen its AUM nearly double since 2003. Mellon said the acquisition is part of its "strategy of building the depth and diversity of non-U.S. investment strategies to meet the growing demands of sophisticated investors."

In line with Mellon's "multi-boutique asset management model," Walter Scott will remain an independent subsidiary of the Pittsburgh-based giant. Although pricing on the Walter Scott deal was not divulged, observers placed it at around $450 million. Since 1998, Mellon has made two other acquisitions of firms in the U.K., Newton Investment Management and HBV Capital. In 2005, Mellon acquired a German institutional firm, **WestAM**. Over the last 10 years, Mellon's international AUM has grown to $100 billion from just $2 billion to account for 11% of total AUM.

In what amounted to a distress sale at the start of 2006, New York hedge fund manager **Angelo**, **Gordon & Co.**, expanded its portfolio by acquiring a traditional asset manager, **ForstmannLeff**, which was part of the scandal-ridden and bankrupt commodities and futures broker, **Refco Group**. Founded in 1968 and based in New York, ForstmannLeff manages some $3 billion in assets in small- and mid-cap U.S. equities for various institutions.

Mutual Funds

The U.S. mutual fund industry reached a new milestone in 2006, passing the $10 trillion mark for the first time, while equity fund inflows showed strong gains during the first three quarters, climbing 28% over the same period in 2005, to $125 billion. Those impressive numbers notwithstanding, the industry remained in a state of transition, as a variety of challenges continued to weigh on players of all sizes. These include increasing industry concentration and the related pressure to deliver sector-beating returns, combined with ongoing concerns about regulations and costs.

Mutual Fund Transactions

	2002	2003	2004	2005	2006
Number of Transactions	22	28	14	19	19
Combined Value ($b)	3.4	0.7	0.9	2.0	13.8
Total Seller AUM ($b)	132	21	43	194	752
Average Deal Size ($m)	155	24	64	106	728
Average Seller AUM ($b)	6.0	0.8	3.1	10.2	39.6

Source: Berkshire Capital Securities LLC

Bobroff Consulting figures the big three of **Fidelity**, **Vanguard** and **Capital Group Companies (American Funds)** account for a record 30% of all U.S. fund assets, with the top 10 mutual fund providers approaching 50%. Moreover, fund inflows tend to be highly concentrated among a few major players. Pressure on fees is also squeezing mutual fund providers, a factor underlined by an Investment Company Institute survey showing the cost of fund ownership at the lowest level in more than a quarter-century.

ICI attributed the decline to "continued investor migration to lower-cost funds and cuts in expense ratios by funds in an intensely competitive market environment." Indeed, a separate ICI report indicates that American investors' top two concerns when researching funds involve fees and historical performance. Additionally, 90% of investors are in stock funds with below-average expense ratios.

Innovation is posing another set of challenges, as investor demand expands beyond plain vanilla funds. The more flexible and transparent exchange traded funds recorded strong growth for yet another year in the U.S., with assets jumping by a third to $350 billion in the 12 months through September 2006 and the number of funds increasing 62%. **Morgan Stanley** predicts the worldwide ETF market will grow to $2 trillion within five years, four times the current level. Given that outlook, it's not surprising the sector experienced its first major deal in 2006, as **Amvescap PLC** acquired **PowerShares Capital Management**.

Another emerging part of the industry, "life-cycle" funds, is also gaining ground, with $110 billion in assets.

A response to the needs of graying baby boomers, these vehicles offer a basket of funds and are targeted to individual retirement dates. Long-short equity funds, which mimic hedge funds, are still just a blip on the radar screen, but they're growing fast, too. In 2006, these investments raked in $3 billion, about as much as in the prior two years combined, to top $14 billion in assets.

The changes sweeping the industry were reflected in the completion of the second blockbuster deal in as many years, between **BlackRock** and **Merrill Lynch**. Propelled by that $9.8 billion transaction, which incorporated a significant institutional component, the mutual fund industry recorded $13.8 billion in M&A value last year, with 19 transactions, compared with $2.3 billion and 20 deals in 2005.

Fund inflows tend to be highly concentrated among a few major players. Pressure on fees is also squeezing mutual fund providers.

The BlackRock-Merrill transaction involved the transfer of Merrill's investment management business, but unlike the 2005 mega-deal between **Citigroup** and **Legg Mason** — in which Citigroup divested its fund business and this year sold off the Legg Mason shares it received as part of that transaction — Merrill plans to maintain a strong hand in the industry through its 49.8% shareholding. Former BlackRock majority-owner **PNC Financial Services** also retains a significant minority stake (34%) in the enlarged firm. Larry Fink, who started BlackRock in 1988, continues as chief executive.

BlackRock, whose AUM more than doubled between 2000 and the time of the deal, picked up $544 billion in assets and access to Merrill's network of 15,000 brokers; expanded its reach to 50 countries; and became one of the 10 largest money managers worldwide, with nearly $1 trillion in AUM. Merrill's strong presence in equity funds and retail focus also complement BlackRock's fixed-income and institutional bias. In addition, Merrill loses the thorny regulatory issues it faced as both a manufacturer and distributor of funds.

"Having an expanded presence in the asset management business has been a strategic priority for Merrill Lynch for some time," said Stanley O'Neal, chairman and CEO of Merrill. "By merging **[Merrill Lynch Investment Managers]** with BlackRock, Merrill Lynch will realize a major objective — the transformation of our asset management unit into a major component of what we believe will be one of the world's preeminent, diversified global money management organizations. We will gain what amounts to a half-interest in a firm twice the size of our unit, with enhanced growth prospects, both organically and through potential acquisitions, with its own publicly traded stock."

Several other major firms either quit the mutual fund business or put out sale feelers in the marketplace. In a major deal, savings-and-loan giant **Washington Mutual** sold its "non-core" mutual fund business, **WM Advisors Inc**. (AUM: $26 billion), to **Principal Financial Group** for $740 million (2.8% of AUM). WaMu chief executive Kerry Killinger said the divestiture was "in keeping with our strategy to streamline our business model". Principal picks up a business that has enjoyed 25% average annual growth in AUM in recent years and that sports a diversified portfolio of 40 branded **WM Funds**, including $12 billion in life-cycle funds.

Prior to the deal, Principal managed $28 billion in funds; the combined total makes the Iowa-based insurer and asset manager the 43rd-largest U.S. fund family and the fourth-largest life-cycle fund manager. Principal also gains access to WM's large network of independent advisors. Principal chairman and CEO J. Barry Griswell said the deal "strengthens our global asset management capability and it increases our presence with over 28,000 independent financial advisors who will play an increasingly import role in securing the retirement future for over 76 million [American] baby boomers".

Nationwide Mutual Insurance sold the international operations of its London-based mutual fund manager, **Gartmore Investment Management** (AUM: $45 billion), to private equity shop **Hellman & Friedman** and Gartmore management. In the heady year of 2000, Nationwide paid 57 times EBIDTA, or $1.6 billion, to acquire Gartmore, part of an effort to build a global footprint. While pricing on the Hellman & Friedman deal was not disclosed, observers placed it at around $900 million *(see more on this transaction in Alternative Investments/Private Equity).*

Late in the year, Nationwide also reached a "preliminary understanding" with publicly traded subsidiary **Nationwide Financial Services** regarding the sale of Gartmore's U.S. retail fund business (AUM: $25 billion), for $200 million in cash plus an amount equal to the "tangible shareholders' equity on the balance sheet at closing". About half the assets are subadvised, relationships that Nationwide Financial said it expects to retain.

The insurance parents of two large mutual fund companies, **Sun Life Financial** and **Marsh & McLennan**, also went to market in the second half of the year to field offers for their holdings. By year's end, New York-based Marsh & McLennan announced it had agreed to sell its **Putnam Investments** unit (AUM: $180 billion) for $3.9 billion to **Power Corporation of Canada**, owner of Canadian mutual fund giant **IGM Financial**. The acquisition would immediately provide Power Corp. with significant scale in the U.S. The reported sale price itself is on the high side of estimates, which varied widely due to the uncertainty about Putnam's prospects. A high-flyer during the bull market, when its AUM reached $400 billion, the firm has in the years since been hurt by its involvement in the mutual fund scandals and the lagging performance of its funds.

For its part, Sun Life of Toronto took its **MFS Investment Management** subsidiary off the market after a month. Although Sun Life CEO Donald A. Stewart noted that there was a "high degree of interest in partnering with MFS," he said the insurer "remains committed to the asset management business in the U.S. and MFS is a valuable strategic asset". Observers believe a deal may have been stymied by price, placed in the range of $3 billion to $4 billion, as well as Sun Life's desire to maintain a large measure of control through a minority share.

MFS, with $175 billion in AUM, has suffered outflows in recent years, and in response, reorganized the management of its high-profile growth funds. In the third quarter, MFS' net income rose 37% to $52 million, accounting for 10% of Sun Life's net, while margins reached 30%. In 2002, Sun Life swapped its Canadian fund business for a 30% stake in Canadian fund giant **C.I. Fund Management**.

In one of the more unusual divestitures of recent memory, farm equipment manufacturer Caterpillar sold its **Caterpillar Investment Management Ltd.** fund business to **T. Rowe Price**. Caterpillar launched its Preferred Group of Mutual Funds (AUM: $3 billion) in the 1980s to serve employees' 401(k) plans. The funds, which were subadvised by several money managers, will be folded into existing T. Rowe Price funds.

Innovation is posing another set of challenges, as investor demand expands beyond plain vanilla funds. The more flexible and transparent exchange traded funds recorded strong growth for yet another year in the U.S.

One insurer with a small fund business, New York's **Guardian Life Insurance Co**., opted to expand by taking a 65% stake in **RS Investments**, a 20-year-old San Francisco company whose AUM has more than doubled since 2002, to $11.8 billion. The deal triples Guardian's AUM and adds a growth and value focus that complements the insurer's fixed-income and "core equity" portfolio. Guardian CEO Dennis Manning said the company would use its "extensive distribution platform to expand the breadth and depth of RS's market penetration." RS, whose Growth Fund was listed last year on Barron's "Top 100" funds list, will continue to operate as an independent subsidiary and has wrapped the Guardian portfolio of funds under its own brand.

Federated Investors (AUM: $237 billion), which made three fund acquisitions in 2005, did three more last year that continued its tack-on approach, adding a total of around $470 million in AUM. The deals involved the **Mason Street Index 400 Fund** (AUM: $218 million); the **Wayne Hummer Growth Fund** (AUM: $158 million); and three municipal bond funds from **Sentinel Asset Management** (total AUM: $93 million). All the funds are being wrapped into existing Federated vehicles. "These transactions demonstrate Federated's continued strategic effort to seek out acquisition opportunities that increase the company's assets under management," said J. Christopher Donahue, president and CEO of Federated. Federated also acquired **MDT Advisers** of Massachusetts, an institutional firm that manages $300 million in mutual funds *(see Institutional section for more information)*.

Harris Investment Management and **The Phoenix Companies** struck a strategic alliance under which Harris became the largest subadvisor to PhoenixFunds, a family of wholly owned asset managers and subadvisors. In turn, Phoenix became the advisor, distributor and administrator for the Harris Insight Funds, which were rebranded under the **Phoenix-Insight** name. "This is truly a best-of-both-worlds situation in that Harris Investment Management will continue to provide portfolio advisory services and the funds will benefit from the strong distribution and administrative capabilities of Phoenix," said William Leszinske, president and chief investment officer of Harris.

ABN sold its U.S. mutual fund business renamed Aston Asset Management (AUM: $6 billion) to start-up **Highbury Financial** for more than $38 million, to focus on its much larger institutional unit, which manages $35 billion. ABN and its existing subadvisors will continue to manage the funds, while Aston focuses on expanding distribution.

In Canada, **Mackenzie Financial Corp.** (AUM: $47 billion) acquired value investor **Cundill Group**, which had been longtime subadvisor for 16 Mackenzie-Cundill and Mackenzie funds totaling $11 billion in AUM, including Mackenzie's largest fund, Cundill Value. Cundill manages another $2.7 billion for institutions and high net worth clients. Charles Sims, president and CEO of Mackenzie, called the acquisition "consistent with our long-term strategy to provide high-quality investment management to our mutual funds." The Cundill investment team, including chief investment officer Peter Cundill, agreed to remain with the firm, which will operate as a separate division.

In a highly significant transaction in the exchange traded funds space, Amvescap PLC acquired PowerShares Capital Management, a deal that will make Amvescap the No. 2 ETF provider by number of funds and fourth by AUM. Illinois-based PowerShares, which launched its first two ETFs in 2003, has enjoyed a meteoric rise: its assets had more than tripled to $3.5 billion in the half-year before the deal was announced in January 2006, making it the fourth-largest ETF provider. By the time the deal was completed in September, it had added another $2.5 billion in assets. The transaction price, at $60 million, includes a series of earn-outs that could bring the final price as high as $730 million, with a portion payable in stock.

Started up by **Nuveen** alumnus Bruce Bond, PowerShares offers a portfolio of 37 ETFs designed to beat traditional indexes through more active management, and includes such unique offerings in the utilities and natural resources areas as water resources and clean energy funds. For Amvescap, which in the first quarter of 2006 recorded the first net inflows in its worldwide fund business in four years, PowerShares adds the fastest-growing company in a dynamic market, and one that complements its **AIM Investments** mutual fund holding. Marty Flanagan, who took over last year as president and CEO of Amvescap, said: "The powerful combination of PowerShares' exciting ETFs, AIM Investments' broad range of actively managed mutual funds, and our top-ranked money market funds offers advisors a uniquely comprehensive array of investment choices from which to build better portfolios for their clients."

Cross Border

Cross border M&A activity worldwide in all industries rose last year to $193 billion, and the financial services industry remained an active participant, with asset managers pitching in to enhance their international operations and showing particular fervor for deals in the alternative investment space.

In the European banking industry, which played host to two major cross border banking transactions in 2004 and 2005, the deal environment remained busy if less dramatic in 2006, with **BNP Paribas**' $10.7 billion acquisition of Italy's sixth-largest bank, **BNL**, the headline transaction. BNP represents the third non-Italian bank in the last two years to enter that market via an acquisition. Observers view the merger last year of Italy's second- and third-largest banks, **Banca Intesa** and **Sanpaolo**, as providing additional impetus for pan-European banking deals, as mature and concentrated domestic industries leave little room for internal maneuvering.

Cross Border Transactions

	2002	2003	2004	2005	2006
US - Int'l					
Number of Deals	23	12	15	13	24
Value ($b)	1.7	1.1	3.4	1.7	8.3
Int'l - Int'l					
Number of Deals	20	16	15	23	24
Value ($b)	2.6	0.5	0.9	7.8	1.4
Total					
Number of Deals	43	28	30	36	48
Value ($b)	4.3	1.6	4.2	9.5	9.7

Source: Berkshire Capital Securities LLC

Still, the road to pan-European deals remains lined with regulatory obstacles. When the European Commission proposed new rules last year that would diminish the power of national regulators to stifle cross border deals, three EU regulatory committees quickly criticized the proposals as favoring speed over prudence. Within the European fund industry, national policies that provide tax and distribution advantages for domestic funds keep a lid on cross border deals in that sector.

Those obstacles aside, asset managers continue to expand their footprint in Europe and elsewhere, cutting deals to purchase companies in whole or part or to formulate new joint ventures. In 2006, there were 48 cross border deals valued at $9.7 billion.

The broader transatlantic pipeline for traditional asset managers remained relatively quiet, in a continuation of recent trends, but there were three significant deals involving U.K.-based targets. **Mellon Financial** acquired a fast-growing institutional firm, Edinburgh-based **Walter Scott & Partners** (AUM: $27 billion), in a bid to enhance that side of its asset management business *(see Institutional section)*.

Robert Kelly, Mellon chairman, president and CEO, said the acquisition "adds significant global investing capabilities to our already formidable strengths." Separately, the Pittsburgh giant opened its first family office outside the U.S., in London. Within the last 10 years, Mellon's international AUM has grown to $100 billion from just $2 billion to account for 11% of total AUM.

Nationwide Mutual Insurance sold the international operations of its London-based asset manager, **Gartmore Investment Management**, to San Francisco private equity firm **Hellman & Friedman Advisors** and Gartmore managers. Gartmore's international business has $45 billion in AUM, largely managed for institutions, including $7.4 billion in hedge funds. When Nationwide acquired Gartmore in 2000, it paid 57 times EBITDA, or $1.6 billion. At the time, the Ohio-based insurer harbored global ambitions. Observers placed last year's sale price at around $900 million, though it did exclude Gartmore's smaller U.S. business. In a third deal, **Citigroup** acquired **Quilter**, a London wealth manager with $11 billion in AUM *(see Wealth Management)*.

Those obstacles aside, asset managers continue to expand their footprint in Europe and elsewhere, cutting deals to purchase companies in whole or part to formulate new joint ventures.

Within the busy alternative space, there were a number of cross border deals, including the acquisition by Belgian financial firm **Fortis** of New York fund of hedge funds manager **Cadogan Management**; London-based **DTZ Holdings**' purchase of New York real estate investment manager **Rockwood Realty Associates**; and the minority stakes taken by **Lehman Brothers**' and **Morgan Stanley** in two London-based hedge fund managers, **BlueBay Asset Management** and **Lansdowne Partners**, respectively *(see Alternative section)*.

European firms concluded several generally smaller deals on the continent, while adding to their capabilities in Asia, which saw a significant increase in cross border activity. **ABN Amro** fine-tuned its portfolio on three continents. The Dutch bank sold its Monaco-based private banking business to **Compagnie Monegasque de Banque**, a subsidiary of Italy's **Mediobanca**, to concentrate on its global private banking network in other markets.

The company also sold its U.S. mutual fund business (AUM: $6 billion) to start-up **Highbury Financial** to focus on its much larger institutional unit and its Taiwan fixed-income fund business to fellow Dutch multinational, **ING** *(see details this section)*. On the other side of the negotiating table, the company acquired a U.K. fund of hedge funds specialist, **International Asset Management** *(see Hedge Funds)*, and upped its investment in a Chinese fund joint venture.

EFG International of Switzerland, which made three cross border private banking acquisitions in 2005 en route to its listing on the Swiss Exchange, added two more last year that enhanced its businesses in two European markets. In the larger deal, EFG acquired **Harris Allday**, a venerable British private client brokerage firm with $3.7 billion in AUM that more than doubles EFG's business in the U.K. The firm also bought a small private bank in Monaco, **Banque Monegasque de Gestion** (AUM: $1.1 billion), which it plans to merge with its existing business in that market. In addition, fast-growing EFG acquired a Bermuda-based fund of hedge funds manager, **Capital Management Advisors** *(see Hedge Funds)*.

In the largest cross border European deal, **Barclays Bank** enhanced its leading position in the global exchange traded funds market and became No. 1 in Germany by acquiring **Indexchange** (AUM: $29 billion) from Germany's **Bayerische Hypo-und Vereinsbank**, for $315 million. "The combined business will create a powerful force to accelerate the development of ETFs in Europe," said Bob Diamond, the U.S.-born president of Barclays. "It is our intention to continue to expand [Barclay's] franchise across Europe and Asia, and this is an important step in the evolution of our strategy."

Cross Border Transactions by Domicile and Type

2005	Buyer: US / Seller: Int'l	Buyer: Int'l / Seller: US	Buyer: Int'l / Seller: Int'l	Total
Institutional	5	3	5	13
Personal/Trust	0	2	10	12
Mutual Fund	0	0	1	1
Other	2	1	7	10
Total	7	6	23	36
2006	**Buyer: US / Seller: Int'l**	**Buyer: Int'l / Seller: US**	**Buyer: Int'l / Seller: Int'l**	**Total**
Personal/Trust	2	2	6	10
Institutional	2	1	2	5
Mutual Fund	1	2	2	5
Other	2	12	14	28
Total	7	17	24	48

Source: Berkshire Capital Securities LLC

Since 2001, **Barclays Global Investors** has seen its AUM double to $1.6 trillion, primarily in passive investments for institutions, making it one of the world's largest money managers and the largest in the U.S. In 2005, global ETF assets rose 35% to $417 billion, and **Morgan Stanley** predicts the market will grow to $2 trillion within five years.

American and European asset managers concluded a number of deals in Asia in a bid to capitalize on the increasing wealth in the region, with virtually all the transactions involving a link with local partners seeking a mix of capital and expertise. In China, which last year hosted two of the largest IPOs in history, for **Industrial and Commercial Bank of China** ($21.9 billion) and **Bank of China** ($11.2 billion), **Royal Bank of Canada** reached agreement for a 30% stake in a new fund company aimed at retail and institutional clients. The partner, privately owned commercial bank **China Minsheng Banking Corp.**, is listed on the Shanghai Stock Exchange and has a presence in major cities throughout the country, while RBC's presence in China is limited to one office in Beijing.

Real Estate Transactions

	2002	2003	2004	2005	2006
Number of Transactions	3	4	3	6	10
Combined Value ($m)	1,022	361	51	221	1,536
Total Seller AUM ($b)	22.8	21.4	3.8	3.7	31.1
Average Deal Size ($m)	341	90	17	37	154
Average Seller AUM ($b)	7.6	5.4	1.3	0.6	3.1

Source: Berkshire Capital Securities LLC

ABN Amro, which has set a goal of tripling revenues in Asia to more than $6 billion by 2010 and has made "Greater China" (China, Taiwan and Hong Kong) a focal point, upped its stake in a Chinese joint venture fund to the maximum allowable 49%. The rest is owned by a new partner, **Northern International Trust & Investment Co.** ABN Amro was the first non-Chinese firm granted a stake in a fund manager in China, in 2003. **Meag**, the asset management arm of **Munich Re**, paid $33 million for a 19% share in **PICC Asset Management**, which manages $5 billion in assets for its parent PICC, the former state insurance monopoly.

China's approximately 60 fund managers control some $70 billion in AUM, but given the nation's torrid economic growth, high savings rate and tattered safety net, observers expect the industry to grow as much as 30% annually in the next several years. Significantly, last year China allowed its citizens and companies to invest in locally owned foreign funds for the first time, while **Citigroup** opened its first private bank office in China.

ABN Amro was also active across the Taiwan Strait, selling its domestic fund manager to ING. The $85 million deal adds $3.6 billion in AUM to the $10 billion ING already managed, solidifies its position as the largest fund manager in that market, and expands its product line, with ABN Amro's portfolio of fixed-income funds complementing ING's equity and international focus. In 2004, the Taiwan fund industry endured a crippling bond fund crisis, after a corporate default caused a run on those instruments. But ABN Amro maintains its funds weathered the storm and ING said the business "has built a strong reputation and a consistent performance track record".

ABN Amro said it will concentrate on its offshore fund business in Taiwan. Last year, Taipei institutionalized the offshore industry by providing for registration and advertising. Meanwhile, another major fund company, **Pioneer Investments**, opened an office in Taiwan and set a goal of accruing $1.2 billion in assets over the next few years, as it seeks to capitalize on expected 15% annual growth in the fledgling fund industry.

In the largest deal in the region, UBS took a 51% stake in **Daehan Investment Management Trust Co.**, South Korea's No. 1 asset manager with $20.5 billion in AUM. UBS is paying $158 million for a stake in the **Hana Bank** subsidiary, with earn-outs that could add another $32 million to the price. As part of its aggressive expansion plans in Asia, **Credit Suisse** entered the Korean market via a joint venture with the nation's third-largest lender and fourth-largest asset manager, **Woori Financial Group** (AUM: $16 billion), which is also listed on the New York Stock Exchange.

Credit Suisse paid $57 million for its 30% stake in Woori's asset management business. Young-key Hwang, chairman and CEO of Woori, said the new firm will provide "clients with world-class products and services through the combination of Woori's onshore distribution network and Credit Suisse's knowledge of global markets and expertise".

The Korean financial crisis of 1997-98 crippled a host of financial firms and spurred IMF intervention as well as government takeovers and billion of dollars in bailouts. But observers are bullish on the long-term prospects for the fund industry, which began a recovery in 2005 that continued into 2006, as an aging population seeks to underwrite its retirement. In late 2005, the government sought to spur such investment with the introduction of a new corporate pension plan. Other global firms with a presence in the market include **Allianz**, **Deutsche Bank**, **Fidelity**, **Prudential Financial** and **Schroders**.

Principal Financial Group expanded its fast-growing Malaysian joint venture with **CIMB Group**, **CIMB-Principal**, via the acquisition of **SBB Mutual** and **SBB Asset**

Management, both acquired by CIMB earlier in the year as part of the purchase of **Southern Bank Bhd**. The U.S insurer and asset manager will pay $52 million for a 40% stake in the enlarged firm, the largest asset manager in Malaysia (AUM: $3.8 billion). Larry Zimmerman, president and chief operating officer of Principal, called the transaction a "unique opportunity to significantly enhance our presence in a strategically important market".

Alternative Investments

Real Estate

As in the world at large, well-heeled private equity investors set the tone in the broader real estate investment industry in 2006, with 10 buyouts of REITs exceeding $1 billion per deal, led by one of the year's headline transactions, Blackstone's $36 billion deal for Equity Office Properties. Blackstone was also involved in two of the year's other major REIT deals, Trizec Properties ($8.9 billion) and CarrAmerica Realty ($5.3 billion). Importantly, as publicly traded companies, REITs are limited in the amount of leverage they can employ, a restriction that will disappear for the firms taken private.

The real estate advisory sector also benefited from the heightened interest in alternative investments among institutions and wealthy individuals, recording 10 transactions valued at $1.5 billion, compared with an annual average of five deals and $416 million in the five years through 2005. The sector drew a number of high-profile buyers and included several cross border transactions involving British and American firms. London-based **Grosvenor**, which has managed the Duke of Westminster's substantial property holdings for generations and is controlled by that family (the Grosvenors), acquired the real estate investment business of **Legg Mason**, doubling its real estate AUM in the U.S. to $3.3 billion. Worldwide, Grosvenor has more than $17 billion in real estate AUM, with about half that total managed for the family. Grosvenor said the deal "fulfills an important goal to expand" its U.S. business and "gain greater exposure to the U.S. institutional investment community."

> *The sector drew a number of high-profile buyers and included several cross border transactions involving British and American firms.*

Real estate advisory and consultancy firm **DTZ Holdings** of London took a 50% stake in **Rockwood Realty Associates**, a New York advisory firm with $3.5 billion in AUM. DTZ said the transaction "significantly enhances" its real estate services for clients while providing Rockwood's clients with "greater access to global real estate services through DTZ's worldwide network". In addition to its U.S. business, Rockwood has operations in Mexico and Central America. The upfront price was $45 million, but earn-outs could raise the total as high as $75 million.

CB Richard Ellis of Los Angeles paid a reported $8 million to acquire the real estate investment operation of 5-year-old London firm **Oxford Property Consultants** (AUM: $590 million), which it merged with its existing U.K. business to create an international multi-manager platform with $1.4 billion in mandates. The new business, **CBRE Investors Global Multi Manager**, will launch a series of funds of funds focused on Europe and Asia to capitalize "on the growing opportunities that exist in the global marketplace for the management of indirect real estate investment portfolios". CBRE has $17 billion in real estate AUM.

Within the U.S., there were two notable transactions. Prior to its mega-deal with **Mellon Financial**, **Bank of New York** acquired **Urdang Capital Management**, a Pennsylvania real estate advisory firm that manages more than $3 billion in private equity investments and portfolios of REIT securities. For BNY, the deal expands its menu of alternative investments for institutional and private clients, while Urdang gains the benefits of distribution. **CharterMac** paid $259 million for the 89% of **ARCap Investors** it did not already own. Dallas-based ARCap (AUM: $2.8 billion) is a leading fund manager specializing in the acquisition, management and servicing of high-yield commercial mortgage-backed securities (CMBS) and high-yield direct real estate loans, an arena in which CharterMac had no presence. Marc Schnitzer, CEO and president of CharterMac, called the acquisition "the next logical step in the transformation of our company from a spread investor to a real estate fund manager."

In an all-Dutch deal, **Rabobank Group**, acquired the real estate advisory (AUM: $4.9 billion) and development businesses of **Bouwfonds**, for $1 billion. **ABN Amro**, the parent of Bouwfonds, also sold the firm's property-financing arm to a Dutch mortgage group. For Rabobank, with $170 billion in AUM through its **Robeco** asset management subsidiary, the deal provides entry to the real estate advisory business; ABN called Bouwfonds a "non-core" business that did not fit its "mid-market strategy."

Alternative Investments

Hedge Funds & Private Equity

Last year marked another watershed for the hedge fund industry, perhaps best summed up by the comments of Barclays Global Investors chief Blake Grossman, who told the *Financial Times* in November that "real convergence" was occurring between traditional and hedge fund investing. In the years ahead there will be "much less of a divide between what's considered a hedge fund and what's considered a traditional strategy," he predicted.

Indeed, as hedge fund AUM reached $1.3 trillion, and by one firm's reckoning as much as $2 trillion, there were numerous signs the industry was approaching a new and much higher level of maturity and acceptance. Several hedge fund companies or funds either went public or made plans to do so *(see Summary);* Casey, Quirk & Associates and **Bank of New York** released a study projecting that institutions worldwide will account for half the $1.2 billion in hedge fund inflows in the four years through 2010; and the number and value of deals concluded in 2006 reached a record and drew many of the world's most established financial players.

Hedge Fund Transactions

	2002	2003	2004	2005	2006
Number of Transactions	14	10	5	10	29
Combined Value ($M)	1,033	198	1,067	1,390	1,570
Total Seller AUM ($b)	16.6	4.2	19.8	36.4	57.6
Average Deal Size ($M)	74	20	213	139	38,927
Average Seller AUM ($M)	1,189	421	3,960	3,640	1,985

Source: Berkshire Capital Securities LLC

The IPOs, combined with the larger number of deals, also help create additional parameters for one of the thornier aspects of hedge fund deal-making – valuations. Based upon IPO prices and transactions, hedge funds.

In 2006, the hedge fund industry recorded 29 deals valued at $1.6 billion, easily topping the $1.4 billion in 2005. The decision by more sellers to link up with a larger partner reflects, in part, a realization that the turbo-charged returns of years past are unlikely to be reproduced, leaving distribution and a strong brand connection as increasingly important growth drivers. At the same time, many sellers and large financial services firms remained wary of diving head-first into full-fledged unions, instead agreeing on minority stakes. While this arrangement can limit the economic benefit for buyers, it also puts a lid on pricing.

The willingness of buyers to look far and wide for investments was also evidenced in the large number of cross border deals for both hedge funds and fund of hedge funds, with European firms well-represented on both sides of the negotiating table. Among buyers, none loomed larger last year than an American giant, **Morgan Stanley**, which invested an estimated $1 billion-plus in four hedge funds on both sides of the Atlantic. The frenetic activity was in line with Chairman and CEO John Mack's pledge to kick-start the company's under-performing asset management business, including expanding its alternative capabilities. Alternatives ranging from private equity to collateralized loan obligations account for 5% of Morgan Stanley's $440 billion in AUM.

The most significant deal was the acquisition of **FrontPoint Partners** for a reported price of $400 million. Based in the hedge fund heartland of Greenwich, CT., 6-year-old FrontPoint follows an absolute return strategy and manages $5.5 billion in assets. Several members of FrontPoint's management and investment teams are former Morgan Stanley employees (including Chairman Philip Duff) and will assume key roles in **Morgan Stanley Investment Management**. "Morgan Stanley is committed to building a world-class alternative investment franchise and FrontPoint will be a cornerstone of that effort," said Gil Caffray, a FrontPoint managing partner who will become vice chairman of MSIM.

Two other deals sandwiched around FrontPoint involved relatively small stakes in similarly sized managers: **Lansdowne Partners** (AUM: $12.5 billion), an 8-year-old London firm that also counts two former Morgan Stanley employees among its key investment managers; and **Avenue Capital** (AUM: $12 billion), an 11-year-old New York company. Lansdowne, in which Morgan Stanley took a 19% stake for a reported $300 million, is one of the largest hedge funds in Europe and has built a record of strong double-digit average annual returns; AUM more than doubled in the 18 months prior to the deal.

Morgan Stanley is believed to have paid a similar price for 20% of **Avenue Capital**, which specializes in distressed debt and under-valued securities of U.S. companies. As part of the deal, Avenue will invest all the proceeds into its funds. (Avenue, whose managing partner and founder Marc Lasry is a Democratic Party contributor, also made news last year for hiring Chelsea Clinton, daughter of the former President and current U.S. senator.) In its smallest and first deal of the year, Morgan Stanley acquired **Oxhead Capital Management**, a Boston hedge fund with $100 million in AUM. The firm was founded in 2003 by three former **Putnam** employees and pursues an equity quant strategy.

A number of other global firms added expertise via minority shares. This included **Merrill Lynch**'s investment in **DiMaio Ahmad Capital**, a credit product specialist with $2 billion in hedge fund AUM (another $1 billion is in structured products). Merrill said it looked forward to "working together [with DiMaio] to further grow the firm by utilizing the global resources of Merrill Lynch." **Credit Suisse** acquired a "small interest" in commodities and basic industries investor **Ospraie Management** (AUM: $4 billion), joining 20%-shareholder **Lehman Brothers**. As part of a "broad strategic alliance," Credit Suisse will invest at least $500 million in "private-equity-type opportunities" in the New York firm's focus areas and provide global distribution support. In the first half of the year, the $250 million Ospraie Point Fund was reportedly closed after it lost nearly one-third of its value betting against the price of copper.

The fund of hedge funds sector was active last year, with a number of high-profile European buyers snapping up targets.

London, the center of Europe's hedge fund industry, played host to several transactions involving U.S. buyers. Lehman tapped the hedge fund market for the second consecutive year to take a 4.99% stake in **BlueBay Asset Management**, ahead of the five-year-old firm's November public offering. A specialist in fixed-income and credit strategies begun five years ago by alumni of **JPMorgan**, BlueBay has a total of $8 billion in AUM, including long-short funds. Through its derivatives group, **American International Group** acquired a 4.3% share in **Aspect Capital**, a holding the insurer can raise to 8%.

AIG, which manages $7 billion in hedge funds through its Hedge Fund Strategies Group, also pumped $75 million into Aspect funds and could provide an additional $125 million in seed capital for other investments. Established in 1997 by three former employees of **Man Financial**, Aspect is a quantitative manager that invests across several asset classes. Through its asset management joint venture, **INTL Consilium**, New York securities broker and trader **International Assets Holding Corp.** acquired a 2-year-old convertible arbitrage fund, **Boston & Alexander Number One Fund Ltd**.

British hedge fund manager **RAB Capital** (AUM: $4.7 billion) made its second acquisition since going public in 2004, paying $10 million upfront in cash with a maximum of $40 million in cash and shares for a small London-based hedge fund, **Northwest Investment Management** (AUM: $500 million). Founded in 1998, Northwest manages four absolute return funds investing in Asia, a specialty that helps diversify RAB's portfolio. In the first six months of 2006, RAB's AUM rose 77% while pretax profit increased 193% to $27.4 million. Armed with $120 million in cash, RAB plans to continue seeking small acquisitions.

In another deal between two London-based firms, insurer **Aviva** acquired a 56% shareholding in **Orn Capital** (AUM: $600 million), which pursues a range of strategies, including distressed debt and global resources. The transaction was done though Aviva's asset management arm, **Morley Fund Management**, and more than doubles Morley's alternative AUM. Elsewhere in Europe, **Robeco**, the asset management arm of **Rabobank Groep** of the Netherlands, acquired a 40% stake in **Analytic Investment Management**, a Belgian specialist in "systematic" intra-day currency trading with $200 million in AUM. The deal follows Robeco's strategy of making small, targeted acquisitions that add more "alpha" to its capabilities.

In February, Spanish bank **BBVA** teamed with South African-based hedge fund manager **Vega Asset Management** to form a joint venture, **Proxima Alfa Investments**. The deal involved Vega wrapping into the new company 10 of its **VegaPlus** hedge funds with $2 billion in AUM, and BBVA investing an additional $1 billion. By October, however, Vega was facing its second crisis in as many years, with billions in losses on bond and currency trades, according to reports, and an asset base that may have dwindled from a high of $12 billion to several billion. BBVA said the joint venture was unaffected by the woes of Vega Asset Management.

The fund of hedge funds sector was active last year, with a number of high-profile European buyers snapping up targets, including **Fortis** of Belgium, which took a 70% stake in a New York's **Cadogan Management** (AUM: $2.1 billion), a 12-year-old firm with a broad international client base. Fortis will merge Cadogan with its existing fund of hedge funds business to form a new stand-alone firm with $3.7 billion in AUM. **Fortis Investment Management Global** CEO Richard Wohanka said the deal provides his company with "real critical mass in an asset class which is increasingly in demand by institutional investors". Jean-Paul Votron, who took over as Fortis chief executive in late 2004, has set aggressive targets for growth outside Benelux (Belgium, the Netherlands and Luxembourg), and in 2006 the company concluded seven acquisitions or joint ventures primarily in Europe, including an asset management joint venture in Russia. The Benelux markets accounted for 80% of Fortis' net income in the first half of 2006.

ABN Amro also tapped a New York firm, **International Asset Management**, adding $2.6 billion in AUM to the

Dutch's bank's existing $1.4 billion in fund of hedge funds. ABN Amro said the acquisition of the 17-year-old firm "underlines" its "long-term commitment to the fund of hedge funds business." In the hedge fund arena, ABN Amro invested as much as $130 million in the IPO of the **Marshall Wace** hedge fund, MW Tops, which is investing in two existing Marshall Wace funds. Merrill Lynch and **Deutsche Bank** also took stakes in the fund. Marshall Wace is one of the larger hedge fund managers in Europe, with $7.5 billion in AUM, and a "Trade Optimized Portfolio System" (TOPS) that capitalizes on the best sell-side strategies from 200 brokers.

Publicly traded Swiss wealth manager **EFG International** acquired Bermuda-based **Capital Management Advisors**, paying 10 times trailing earnings for the 9-year-old firm, whose AUM tripled to $1.7 billion between 2001 and 2005. The addition of Capital brings EFG's total assets in hedge funds or related products to $5.8 billion. Half the purchase price, which was not disclosed, will be paid over a five-year earn-out period. Sabby Mionis, CEO of CMA, called the transaction "an important milestone in our quest to build one of the largest and best-performing fund of funds companies globally".

The hyperactive private equity market registered a number of transactions involving asset managers, with the two largest (by AUM) involving non-U.S. buyers.

In a marriage of two British companies, **Schroders** paid $101 million upfront with another $41 million possible in earn-outs for **NewFinance Capital** (AUM: $2.5 billion), a 3-year-old firm with clients across Europe, the Middle East and Japan. Schroders, which had approximately $800 million in fund of hedge funds assets prior to the deal, said the addition of NewFinance "strengthens our capability in alternatives and broadens our product offering to clients with a range of institutional-quality funds." In late 2005, Schroders overhauled its own $800 million pension fund to emphasize derivatives and alternative investments, a response in part to new accounting rules tightening the reporting gap between pension assets and liabilities.

Caledonia Investments, a U.K. investment trust took a 60% stake in a joint venture acquiring **Liberty Ermitage Jersey Ltd.** (AUM: $2.4 billion) of South Africa for $65 million upfront, with an additional $11 million possible through earn-outs. Liberty Ermitage, which was part of the South African insurer **Liberty Group**, has clients in the U.S., the U.K. and Japan. Tim Ingram, chief executive of Caledonia, said the new firm "is very well-positioned to take advantage of the expected growth of the hedge fund industry in Europe, particularly as it becomes accepted by more and more institutional investors and consultants". Noted British fund manager Paul Myners, who five years ago authored a major government report on pension funds, became chairman of the new venture, assuming part of the remaining 40% equity taken by management.

In distressed sale, private equity firm **FTVentures** pick up the bankrupt **PlusFunds Group** for a reported $5 million, including assumption of liabilities, plus another $15 million in commitments for working capital and funding. PlusFunds, with more than $600 million in AUM, has been hammered by creditors of bankrupt broker and commodities trader Refco, which acted as prime broker for PlusFunds.

The hyperactive private equity market registered a number of transactions involving asset managers, with the two largest (by AUM) involving non-U.S. buyers. In one, financial services firm **GMP Trust** of Canada paid $135 million for **EdgeStone Capital Partners**, a leading Canadian private equity firm that manages $1.8 billion in private capital for institutions and individuals. In a bid to expand its portfolio of diversified "investment boutiques," **Bank of Ireland** established a joint venture with **Paul Capital Partners** of San Francisco, a global private equity firm. BOI paid a total of $30 million for a 50% interest in the venture, **Paul Capital Top Tier Investments**, with PCP contributing its existing private equity fund of funds business (AUM: $1.1 billion) and investment team in return for a 35% stake (management retained the other 15%). Last year, BOI acquired a majority share in another U.S.-based alternative firm, **Guggenheim Alternative Asset Management**, a fund of hedge funds manager.

In a deal between two U.K. firms, **Cazenove Capital Management** spun off its private equity business into a merger with **Prelude Ventures**. The new firm, **Esprit Capital Partners**, has $500 million in AUM in three European-focused funds, with 80% of the assets coming from Cazenove and an additional $175 million for new and follow-on investments. **Société Générale**, which has built a strong branch network in Eastern Europe, acquired **Baring Corilius Private Equity**, an investor in Central and Eastern Europe. Baring, which managed more than $100 million in assets, was merged into SocGen's alternative investments team. South African investment firm **Johnnic Holdings** announced its first U.S., commitment, of up to $44 million, in **Blue Wolf Capital Management** of New York, a private equity firm started up by two former senior employees in New York City's comptroller's office. Blue Wolf makes investments in companies that do business with government entities.

About Berkshire Capital

Berkshire Capital has been advising clients since 1983 in connection with merger, acquisition, divestiture and joint venture transactions involving investment management and securities firms and related financial services businesses. Headquartered in New York City, the firm has offices in London and Denver.

The Berkshire Capital team consists of about 35 professionals and support staff dedicated to our mandate, constituting the largest independent Financial Institutional Group with an investment management and securities focus. As the first investment bank to target these sectors exclusively, Berkshire Capital developed an extensive proprietary transaction database, which provides a uniquely critical perspective from which to advise our clients on transaction structure and valuation.

Berkshire Capital is an employee-controlled M&A boutique that operates without many of the inherent conflicts within larger full service investment banks. We have advised buyers and sellers, both foreign and domestic, on over 200 completed transactions. These transactions have involved a transfer of almost $370 billion of assets under management with an aggregate value in excess of $8.8 billion. We have also completed more than 185 valuations/ strategic advisory assignments.

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