Berkshire Capital Securities LLC

2009 | Investment Management Industry Review

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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Vanishing Act

Bernard Madoff had an impeccable financial resume. His firm, Bernard L. Madoff Investment Securities, was a major market maker on the Nasdaq exchange, where Madoff helped spearhead the drive for electronic trading and lower trading costs. In the early 1990s, the New Yorker had also served for three years as chairman of Nasdaq. But among an elite group of investors, the 70-year-old Madoff was best known as a money manager who could deliver with uncanny precision 10% to 12% annual returns, even in the most difficult markets.

That steady record drew capital from a long list of prominent and wealthy individuals, but also from major financial institutions throughout the world, including **AXA, Banco Santander, BNP Paribas, HSBC** and **Man Group**. One U.S. hedge fund, **Fairfield Greenwich Group**, parked more than half its assets with Madoff, amounting to $7.5 billion. Then, on the cusp of the December holidays, federal investigators delivered some unimaginable news: Madoff, reportedly by his own admission, had been running a massive Ponzi scheme — possibly the largest in history. Madoff himself placed potential losses at $50 billion, according to investigators.

In a year when tens of trillions of dollars in wealth in securities and real estate vanished worldwide and comforting investment maxims were eroded, the collapse of Madoff's phantom empire appeared as some cruel yet symbolic climax. The episode also highlighted the breadth of the financial meltdown, which snared with equal contempt wealthy individuals, storied money managers, hedge fund wizards, sovereign wealth funds and middle-class investors.

Although the crisis did not cause a political storming of the ramparts, it did put an abrupt and astonishing end to an era of global free market ascendancy dating back to the elections of British Prime Minister Margaret Thatcher and President Ronald Reagan. From Washington to Brussels, national governments were compelled to step in and salvage a global financial system on the verge of collapse.

At the epicenter of the crisis, the U.S., the federal government became the nation's dominant financial engineer at the same time that traditional sources of credit dried up. Washington moved quickly to create a $700 billion fund managed by the U.S. Treasury to aid the financial industry; nationalized **Fannie Mae** and **Freddie Mac**; became a shareholder in two more tottering financial giants, **AIG** and **Citigroup**; and threw its weight behind numerous transactions designed to stabilize the financial sector, including **JPMorgan Chase**'s acquisition of **Bear Stearns**, while withholding a lifeline from **Lehman Brothers**. Bill Gross, managing director of fixed income giant **Pimco** — which the federal government pegged to help manage some of its newly acquired commercial paper — figures the U.S. government now owns about 20% of bank capital.

In short order, the public tab for keeping the nation's financial system and economy afloat began reaching epic proportions. As the year ended, the Federal Reserve's balance sheet looked positively adventurous, with assets more than doubling between the summer and December to $2.3 trillion on a capital base of just $40 billion — and many of those assets of dubious value. The Fed also pledged to purchase as much as $800 billion in credit instruments designed for consumers or small businesses, primarily mortgages. For its part, the U.S. Treasury borrowed a record $550 billion in the fourth quarter of 2008.

Negative Territory Ahead

GDP growth

	2007	2008	2009*
U.S.	2.0%	1.1%	-1.6%
Euro Area	2.6%	1.0%	-2.0%
U.K.	3.0%	0.7%	-2.8%
Japan	2.4%	-0.3%	-2.6%
Developing Asia	10.6%	7.8%	5.5%
China	13.0%	9.0%	6.7%
Global	5.2%	3.4%	0.5%

** Projected*

Source: IMF, January '09 revise

As President Obama sought to bolster spirits by committing to an aggressive public works plan, estimates for the full-year 2009 budget deficit ranged from $1 trillion to as much as $1.8 trillion, with the latter number equivalent to 13% of GDP. The economy, meanwhile, continued to sag: the U.S. Commerce Department reported that GDP contracted by 0.5% in the third quarter, while the National Bureau of Economic Research announced to no one's surprise that the U.S. was in the midst of a recession dating back to December 2007. With the steady monthly drumbeat of job losses accelerating after summer — totaling 1.9 million between September and December — and unemployment topping 7%, the precarious state of America's "Big Three" automakers hung over the economy like a scythe, forcing Washington to pledge $17.4 billion in financing for GM and Chrysler.

Few observers were predicting a quick turnaround, including Federal Reserve Chairman Ben Bernanke. "Ultimately, the trajectory of economic activity beyond the next few quarters will depend greatly on the extent to which financial and credit markets return to more normal functioning," he told the Economic Club of New York last October. A Wall Street Journal survey showed economists projecting negative economic growth of 4.3% in the fourth quarter of 2008 and continuing into the first two quarters of 2009 (negative 2.5% and 0.5%,

respectively). Although Depression scenarios were broadly discounted, no one was willing to dismiss the possibility of a severe and protracted recession with double-digit unemployment.

The U.S., many observers opined, was finally paying the price for years of profligacy. In particular, the perennially optimistic American consumer — the engine of not only the nation's economic growth but a disproportionate share of the world's growth — took a gloomy turn. The Reuters/University of Michigan Index of Consumer Sentiment stood at 55 by November, compared with a peak of 97 in January 2007, and more than 70% of those surveyed expect unemployment to rise in 2009 and the recession to linger. There was good reason for gloominess: The Federal Reserve reported that between the third quarter of 2007 and 2008, household net worth declined by $7.1 trillion, or 11%, to $56.5 trillion, with $2.8 trillion wiped out in the third quarter alone. And while mortgage and consumer debt leveled off in the third quarter, at $13.1 trillion it represented a 46% increase since 2003. During the same period, owners' equity as a percent of household real estate dropped more than 12 points to 45%.

Global Free Fall

Major Stock Indices

	2008 v. 2007 Price Change (%)	2008 Market Cap. Loss ($B)
Dow Jones Ind. Avg.	-34%	$1,460
S&P 500	-39%	$5,046
Nasdaq	-41%	$1,812
FTSE 100 (UK)	-50%	$1,464
DAX (Germany)	-43%	$600
Nikkei 225	-28%	$844
China (Shanghai)	-62%	$2,249
Dow Jones World Index	-43%	N/A

Source: Bloomberg

In Europe, which bulked up on dicey American securities and experienced its own real estate bubble in several markets, elected officials were also forced into action. In Britain, the government set aside more than $600 billion to revive its banking system while taking a majority stake in **Royal Bank of Scotland** and a large minority interest in the merged **Lloyd TSB Group-HBOS**. France and Germany promised a total of more than $1 trillion to their banking industries, primarily in lending guarantees but also to aid recapitalization. The governments of Austria, Belgium, Greece, Iceland, Ireland, Italy, the Netherlands, Spain and Switzerland also stepped in to support their financial industries.

The eurozone joined the U.S. in recession, with unemployment climbing to a two-year high of 7.7%. Germany, the largest economy in Europe, said fourth-quarter economic growth would likely be worse than in the third quarter, when the economy contracted 0.5%. France also projected negative growth in the fourth quarter and the first half of 2009. For its part, the Bank of England warned in November that the nation faced its worst economic slump since the early 1990s while the Nationwide Building Society projected an 80% drop in the U.K. mortgage market in 2008 and another bad year in 2009.

With the U.S. and Europe in recession, Asia's export-driven economies began to slump, too. Japan registered negative growth in the second and third quarters, leading the government to propose a stimulative budget package that cuts taxes and raises spending nearly 7%. In China, which has clocked double-digit annual economic growth with the regularity of a metronome, the International Monetary Fund projects 2009 GDP growth of 6.7%, about half the level achieved in 2007. Prosperous Singapore registered negative growth in the last three quarters of 2008. In December, the Asian Development Bank cut 2009 growth forecasts for the region's developing markets for the second time since the summer, to 5.8% (down 1.4 points from September).

For the global economy, the IMF projects growth of just 0.5% in 2009, the lowest rate in 60 years and down from 3.4% last year and 5.2% in 2007. The advanced economies are expected to show combined negative growth of 2% in 2009. "In an era of globalization, we became intoxicated with what cross border linkages were able to deliver on the upside of a boom," wrote Stephen Roach, chairman of **Morgan Stanley Asia**, in the Financial Times. "But as that boom went to excess and spawned a lethal globalisation of asset bubbles, the inevitable bust now poses an exceedingly tough hangover."

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For an asset management industry that in the summer of 2007 began to experience the shockwaves of the initial credit crisis, 2008 proved a bender of historic proportions. Stock markets worldwide went into a collective tailspin, with declines ranging from a 28% in Japan to 65% in China. In the U.S., the Dow Jones Industrial Average declined 34%, its worst annual

performance since 1931. The S&P 500 sank 39% to 903, the same level it reached in mid-1997, when the index was at the tail end of a 10-year fourfold increase (the index dropped to the 900 level again in 2002-2003).

For investors of all stripes, the response involved a retreat to safe havens. Although yields on some money market funds had dropped to near zero, by November they accounted for 40% ($3.7 trillion) of mutual fund assets in the U.S.—14 points higher than in December 2007, according to the Investment Company Institute. During the same period, equity funds lost 45% of their assets, dropping to $3.6 trillion, with net outflows totaling $150 billion between September and November. Mutual fund assets as a whole lost $2.6 trillion in the year through November, sinking to $9.4 trillion. In Europe, assets in funds were off 16% in the year through September 2008, with redemptions soaring to $155 billion in September, according to Lipper FMI. Asia experienced a 25% decline in fund assets in the first three quarters of 2008.

For dealmakers in the asset management industry, the financial crisis and stock market collapse had an almost schizophrenic effect, simultaneously driving and stifling transactions. The 2008 total of 199 deals worth $16.3 billion was impressive, but as the year progressed and the economic and investing outlook grew bleaker, buyers grew increasingly skittish. For example, acquisitive **Affiliated Managers Group** said during its third-quarter conference call that it was staying on the sidelines “until markets stabilize,” despite a “strong pipeline” of potential targets. In January 2009, the company also restructured and postponed the majority investment it made seven months earlier in New Jersey-based **Harding Loevner**, citing “market conditions.” Similarly, **BlackRock** chairman and CEO Laurence Fink said during his third-quarter call that the company has “had more inquiries recently about merger opportunities than we’ve ever had,” but said management was waiting for markets to calm before it began “any of [those] conversations.”

For some buyers, the absence of credit was one issue, but the more significant one alluded to in the AMG and BlackRock conference calls involved assessing valuations on targets during a period of extraordinary uncertainty and volatility. Among asset managers of all sizes, declines in AUM of one-third and more were common and few observers were ready to bet on the direction of equity markets, let alone the mental state of investors. In a global survey of asset managers by KPMG conducted before the stock market capitulation in the fall, 60% of respondents agreed that “trust in fund managers has been eroded due to the effects of the credit crisis.” The Madoff affair, coming on top of the subprime mortgage securities debacle, further eroded investor confidence in the due diligence being carried out by many money managers.

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Appropriately enough, the headline deal in 2008 was driven by the financial crisis, as a Lehman Brothers on the verge of bankruptcy agreed to sell its **Neuberger Berman** wealth unit to a team of private equity firms, **Bain Capital** and **Hellman & Friedman**. The distress price of $2.2 billion was quickly challenged in bankruptcy court by other interested parties, including Neuberger management, which ultimately won the revised bidding process, taking a 51% stake (Lehman retained 49%). Another financial casualty, AIG, sold its Swiss private bank to **Aabar Investments**, an Abu Dhabi investment group, for $255 million. **Putnam Investments** was forced to transfer its institutional Prime Money Market Fund to **Federated Investors** when it came under severe pressure for redemptions. Federated, bolstered by its large money market business, made three other acquisitions last year.

Fewer Deals All Over

Mergers & Acquisitions, All Industries

Number of Announced Deals	2007	2008
Worldwide	43,817	39,597 (-10%)
U.S.	11,296	9,165 (-19%)
Europe	14,603	12,879 (-12%)
Asia-Pacific	10,460	10,291 (-2%)
Value ($ billions)	**2007**	**2008**
Worldwide	$4,169	$2,936 (-30%)
U.S.	$1,571	$986 (-37%)
Europe	$1,593	$1,158 (-27%)
Asia-Pacific	$460	$420 (-9%)

Source: Thomson Reuters

A couple of key bank distress sales resulted in the formation of more formidable asset management operations. **Wells Fargo**’s acquisition of **Wachovia** created a $258 billion mutual fund business that wraps in the **Wells Fargo Advantage** and **Evergreen Investments** mutual fund brands. Through its acquisition of **Merrill Lynch, Bank of America** added a near-50% shareholding in BlackRock to complement its **Columbia Management** mutual fund business and its wealth management

practice. The Belgian government's $19.6 billion sale of large parts of **Fortis** to **BNP Paribas** will create the fifth-largest asset manager in Europe, if the shareholder challenge that halted the deal is dismissed.

Investment Management Transactions

	2004	2005	2006	2007	2008
Majority Equity	119	124	150	166	149
Minority Equity	8	9	12	26	29
Management Buyout	6	6	5	12	21
Total	133	139	167	204	199
Total Transaction Value ($B)	$10.7	$19.3	$47.2	$37.4	$16.3
Total AUM Changing Hands ($B)	$720	$1,202	$2,340	$1,155	$1,148

Source: Berkshire Capital Securities LLC

At the same time, one major cross border agreement involving an emerging market buyer fell victim to the financial crisis — **Ping An Insurance**'s $3.2 billion deal for a 50% interest in **Fortis Investments**. The Chinese insurer's bold bid to extend its asset management arm was reached in the first quarter of 2008 but collapsed by the third quarter, with both sides citing "current turbulent market circumstance." **Bank of China** was another story, however, as the cash-rich giant moved aggressively to expand its capabilities and reach by paying $340 million for 20% of French wealth manager **La Compagnie Financiere Edmond de Rothschild** and close to $9 million for a 30% stake in a small Swiss hedge fund, **Heritage Fund Management**.

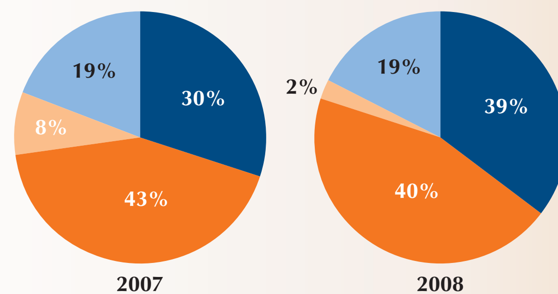
Within China, **Aegon, Aviva Investors, Bank of Nova Scotia** and **Old Mutual** all reached joint venture fund management agreements with local partners, as financial services firms continued to be drawn by the high growth potential of the market. South Korea, Taiwan and emerging markets in Latin America also drew dealmakers from Europe and North America. From another cash-rich region, the Gulf, Dubai's sovereign wealth fund **Istithmar World** took a majority share in U.S. credit investor **Gulf Stream Asset Management**.

Asian-based firms were also in demand in the troubled hedge fund sector, with European players **Marshall Wace** of the U.K. and **LGT Group** of Liechtenstein both cutting deals for Hong Kong-based hedge funds. As turmoil turned into potential opportunity, hedge funds specializing in credit-related investments were scooped up, with **Blackstone Group**'s purchase of leveraged finance specialist **GSO Capital Partners** the key deal in the hedge fund sector. **Man Group** and **Goldman Sachs** also acquired two credit investors, **Ore Hill Partners**, and **Claren Road Asset Management**, respectively.

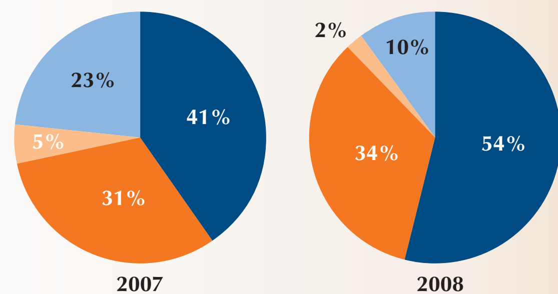
Although their influence waned in general, private equity players continued to make their presence felt in the asset management industry, and while the Bain and Hellman & Friedman bid for Neuberger ultimately failed, another team approach involving **Pharos Capital Group** and **TPG Capital** concluded in the acquisition of mutual fund provider **American Beacon Advisors** for $480 million. **TA Associates**, which in 2007 invested in three asset managers, purchased a minority stake in **Keeley Asset Management** for an estimated $500 million while **Carlyle Group** paid $75 million for a 25% stake in **Boston Private Financial**. British private equity legend Sir Ronald Cohen made three asset management investments, two involving London hedge funds.

Who's Selling

Number of Transactions by Sector as % of Total



Value of Transactions by Sector as % of Total



Institutional / Mutual Fund
Wealth Management
Real Estate
Private Equity / Other

Source: Berkshire Capital Securities LLC

Asset Management Finance, which provides acquisition capital to asset managers in return for a limited-term, revenue-share interest, made four investments in a variety of U.S. asset managers last year, including the management buyout of

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timber investor **Forest Investment Associates**. AMF was itself acquired by **Credit Suisse Group**, which paid $384 million for the majority interest held by **National Bank of Canada**. As part of a strategic reorganization, Credit Suisse later sold part of its asset management business to **Aberdeen Asset Management** in return for a 25% stake. For the second consecutive year, Aberdeen expanded its property fund management business via acquisition, paying an initial cash consideration of $130 million for the largest independent property fund manager in the U.K., **Goodman Property Investors**.

Canada's asset management industry continued to consolidate last year, led by Bank of Nova Scotia's $2.1 billion purchase of a 37% stake in **CI Financial Income Fund** and **Royal Bank of Canada**'s $1.4 billion acquisition of one of the nation's largest independent asset managers, **Phillips, Hager & North Investment Management**. RBC also cut two deals in the U.S., acquiring a small "socially responsible" investor, **Access Capital Strategies**, and buying a minority stake in hedge fund **O'Shaughnessy Asset Management. National Bank of Canada** made four domestic investments in brokerages and wealth managers, three of which extended its business outside its home market of Quebec.

* * *

In our 2005 Investment Management Industry Review, covering the year 2004, we noted with some trepidation "a gnawing sense that something wasn't quite right with the U.S. economy," in particular concerns that it was "too reliant on the fumes generated by an over-heated housing market." Beyond that, we pointed to the yawning U.S. current account gap, the expanding federal deficit, and Americans' "record-high levels of debt (as a proportion of income) and nearly negligible savings rate." Those factors, we said, were fueling concern "that the country is living beyond its means and headed toward a possible day of reckoning."

That reckoning began in earnest in 2007 and last year cut through the American and global economies with a vengeance, destroying fabulous amounts of wealth in a rolling series of shockwaves. By the final months of the year, the U.S. government had effectively taken control of an enervated private banking system. As we note at the beginning of our Summary, the shadow play of Bernard Madoff will doubtless serve as yet another in a long line of ready symbols that define a year and an era, raising questions about how much of America's accumulated wealth was real and how much was simply conjured by easy credit and other nation's savings.

As 2009 began, and a new President took office, the banking system and economy remained fragile and the path forward not entirely clear. Some argue that the key to generating sustainable future growth requires a regeneration of the nation's industrial base, with a concurrent improvement in the current account deficit. In short, more exports, if possible, but fewer imports for certain. There have been related calls for a rebalancing of global consumption patterns, under which the citizens of Asia as well as Europe shed traditional saving patterns and metamorphose into better consumers (ideally, with a taste for American products).

In the near term, it's hard to imagine Asia's consumers putting aside established and often rational patterns of behavior and, with its aging population, Europe would also appear an unlikely candidate for a collective shopping spree. After the freefall in housing and stock prices, Americans may well decide it's time to rediscover the old-fashioned values of thrift and modesty, particularly baby boomers on the cusp of retirement. As a result, while mortgage rates below 5%, lower oil prices and massive government spending should free up excess cash, it's anyone guess whether Americans will use that money for consumption or to pay down debt and save and invest.

Who's Buying

	2004	2005	2006	2007	2008
Institutional / Mutual Fund	26	32	31	30	48
Bank	43	35	39	43	34
Wealth Manager	18	16	24	38	29
Financial	8	6	18	22	28
MBO	6	6	5	12	21
Insurance Company	4	7	13	7	7
Trust Company	3	8	6	4	7
Securities Firm	7	9	14	16	4
Real Estate Manager	1	4	6	14	2
Other	17	16	11	18	19
Total	133	139	167	204	199

Source: Berkshire Capital Securities LLC

A nervous federal government and businesses focusing on their diminished bottom lines will be awaiting that outcome with keen interest. So will asset managers, who suffered through the worst year for equities since the Depression. For many smaller to mid-size firms feeling the squeeze of diminished assets and lack of scale, the direction of markets and the mindset of investors will determine their ability to continue as independent entities. But the direction of equity markets may also determine the fate and options of firms that have already decided to sell out to a larger partner, as another period of volatility will undoubtedly thin the ranks of potential buyers.

We tend to lean in favor of a scenario that sees buyers and sellers returning to the negotiating table in fairly large numbers in 2009, but after a year like 2008 we also recognize that any effort at prognostication might charitably be called audacious.

Wealth Management

The latest World Wealth Report from Capgemini and **Merrill Lynch**, covering the year 2007, painted a robust picture of the financial elite, with assets of high net worth individuals worldwide rising 9.4% to nearly $41 trillion and the number of individuals with more than $1 million in investible assets up 6% to top 10 million. The problem with the survey: it took place before the credit crisis turned into a full-scale global financial rout.

By 2008, the picture of wealthy individuals emerging in the U.S. was far different but undoubtedly reflective of the global experience. Spectrem Group released a study showing that assets held by American millionaires had plunged an average of 30%, and financial advisors were getting at least some of the blame, with only one-third of respondents saying their advisors had performed well. A midyear survey by Barron's showed a similarly downbeat picture. In the 12 months through June — months before the capitulation in equity markets — assets at the top 40 U.S. wealth managers had increased by just 4%, compared with a minimum of 21% in three of the four previous calendar years.

Moreover, a study by market researcher Prince & Associates indicates that the financial crisis has made wealthy investors unusually restive, with 57% saying they planned to leave their private bank and 86% saying they wouldn't recommend it to a friend. "Every single client is reassessing the level of confidence and trust they have in the institutions that advise them," Mary Callahan Erdoes, CEO of **JPMorgan Private Bank**, told Barron's in October.

For many wealth managers, the brake on asset growth and the flight to safety combined to put a damper on results. At **Wilmington Trust**, for example, wealth advisory revenues in the third quarter of 2008 rose just 2% over the year-earlier period and were down from the second quarter. **Citigroup**'s wealth management unit reported sharp declines in AUM (down 26%), revenues (10%) and net income (26%) between the third quarter of 2007 and 2008.

The near-term challenges notwithstanding, the roughly $30 trillion to $35 trillion in investable assets held by the world's wealthy is still a formidable number — more than two times the size of the U.S. economy — and managing that money remains a profitable endeavor. Accordingly, companies operating in the wealth management industry remained a hot ticket last year, with 80 transactions, on par with the record number of 87 that took place in 2007. At the same time, deal size nearly halved to $70 million, in line with trends in other sectors.

The total value of deals did drop to $5.6 billion. There was one blockbuster deal, involving the forced sale by **Lehman Brothers** of its **Neuberger Berman** wealth unit, and several other distress sales in which banks gained wealth units as part of a larger purchase. Through its acquisition of Merrill Lynch, **Bank of America** added that company's wealth management business and its near-50% interest in **BlackRock**. BoA's wealth unit, bolstered by the 2006 acquisition of U.S. Trust, has $210 billion in AUM. In acquiring **Wachovia, Wells Fargo** gained a top-10 U.S. wealth manager with $77 billion in AUM and expanded its footprint outside the West Coast.

Last year also produced a number of significant cross border tie-ups that underline the drive among wealth managers to generate growth by either expanding or starting up international operations. Among them: The link forged between **La Compagnie Financiere Edmond de Rothschild** (AUM: $45 billion), the French subsidiary of **LCF Rothschild Group**, and **Bank of China**, via BoC's $340 million purchase of a 20% shareholding. For Rothschild Group, which opened a representative office in Shanghai in 2006 and set up a Hong Kong subsidiary early last year, the BoC deal provides a powerful connection in a market it has targeted for growth. Michel Cicurel, CEO of Paris-based Edmond de Rothschild, called it a "strategic partnership with the best international bank in the best country of the emerging world."

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For its part, BoC sees the investment as an opportunity to leverage the expertise of Rothschild so it can deliver a broader and more profitable range of products to its newly wealthy customers, many of whom tend to park assets in simple cash accounts. In Asia as a whole, high-net-worth individuals had 25% of their financial assets in cash/deposits, according to the World Wealth Report. Rothschild Group also reached an

agreement to set up a wealth management joint venture with fast-growing **Axis Bank** of India, targeting that nation's expatriate community. Axis, based in Mumbai, will manage client relationships while Rothschild handles investments.

Societe Generale and **Rockefeller Financial Services** joined hands to further their respective global expansion plans, as SocGen acquired a 37% stake in the New York firm with an eye on its dynamic wealth management subsidiary, **Rockefeller & Co.** The deal is SocGen's second such investment in North America since 2007, when it acquired **Canadian Wealth Management**, a small Calgary firm. Rockefeller & Co. president and CEO James McDonald said the link to SocGen "reflects our commitment to the continued investment in and growth of our global franchise" and cited the access it would provide clients to the French bank's products, including hedge funds. Rockefeller & Co., which has $29 billion in assets under management and administration, has indicated an interest in opening offices in London and Switzerland.

Wealth Management Transactions

	2004	2005	2006	2007	2008
Number of Transactions	64	59	65	87	80
Combined Value ($B)	$2.1	$6.2	$7.2	$11.6	$5.6
Total Seller AUM ($B)	$94	$119	$284	$227	$388
Average Deal Size ($M)	$33	$106	$111	$133	$70
Average Seller AUM ($B)	$1.5	$2.0	$4.4	$2.6	$4.9

Source: Berkshire Capital Securities LLC

Following its takeover by the U.S. government, **AIG** made its first major divestiture, involving the $250 million sale of its Swiss private bank to an Abu Dhabi investment group, **Aabar Investments**. Founded in 1965, **AIG Private Bank** (AUM: $17 billion) is based in Zurich but has established a presence in several Asian markets as well as Dubai. Both sides said the deal provided an opportunity to expand the private bank's presence in the Gulf region. Aabar Investments, which will change the private bank's name, is associated with Abu Dhabi's ruling family and has focused its investments in energy and real estate.

Another company that has been squeezed by the credit crisis, **UBS**, was a buyer last year, entering the Dutch market through the acquisition of **VermogensGroep**, an independent firm with $6 billion in AUM and an ultra high net worth clientele. Maarten Rutgers, chairman and founding partner of VermogensGroep, said the deal "will bring us one step closer to reaching our objective to become Holland's number one wealth manager." For UBS, a steady acquirer of wealth managers, the deal took place as it continued the process begun in 2007 of credit-related writedowns totaling some $47 billion through the third quarter of 2008.

At UBS' wealth unit, which suffered a total of $60 billion in net outflows in the second and third quarters, the investment banking writedowns stirred concern about reputational risk and led to calls for a corporate split-up. In response, new chairman Peter Kurer promoted greater autonomy for UBS' business units and, during an extraordinary general meeting in October, hinted at the possibility of complete separation by noting that "this repositioning will create maximum flexibility to capture the best possible opportunities for shareholder value creation in the future." At the same time, the wealth unit suffered a blow to its own reputation when a U.S. federal grand jury indicted the head of UBS' global wealth business on charges of assisting U.S. clients with tax evasion.

The cross border deals weren't restricted to prominent firms. **Focus Financial Partners**, a 2-year-old New York wealth manager with a rapid-fire record of 16 acquisitions and investments, tapped the U.K. for its first international deal, acquiring **Greystone Financial Services** (AUM: $1.6 billion) of Manchester and London. In explaining the purchase, Focus emphasized the increasing demand in the U.K. for firms such as Greystone that provide "independent, objective" advice. Backed by Focus, Greystone subsequently announced the purchase of a small British wealth manager, **Roger Harris & Co.** (AUM: $140 million). In total, Focus' partner firms oversee $29 billion in client assets.

The largest wealth transaction last year was an all-U.S. affair, involving the contested sale by Lehman Brothers of its Neuberger Berman wealth unit. The initial deal was cut after Lehman went into bankruptcy, with an alliance of two U.S. private equity companies, **Bain Capital** and **Hellman & Friedman**. But a Neuberger management group and other parties challenged the transaction in bankruptcy court, citing the knockdown $2.2 billion price tag, which was one-third the value placed on Neuberger prior to Lehman's bankruptcy and $400 million less than Lehman paid for the company in 2003. The court decided in favor of management's undisclosed bid, which left the group with a 51% stake and Lehman with 49% of the common shares. Lehman will also receive 93% of the $875 million in preferred equity that will be issued. The new firm, **Neuberger Investment Management**, has $160 billion in AUM, about $70 billon less than it had when Bain and H&F made their initial offer in September.

In addition to Neuberger's traditional wealth business, the new company incorporates Lehman's sizable fixed income and alternative asset management businesses, not including minority stakes the company has taken in recent years in such hedge fund managers as **D.E. Shaw & Co.** and **GLG Partners**. The Neuberger portfolio also includes **David J. Greene and Co.**, an established family-run New York wealth manager with $2 billion in AUM that Lehman had acquired in the second quarter of 2008. The company will be led by George Walker, global head of investment management at Lehman.

In other deals of note within the U.S., aggressive multi-family office **GenSpring Family Offices** bought Phoenix-based **Inlign**

Wealth Management (AUM: $2 billion) for $13 million, as part of a push into the Southwest. The deal marked the second acquisition for GenSpring since 2007, when it acquired Miami-based TBK Investments, a multi-family office with clients in Latin America and Southern Europe. An affiliate of **SunTrust Banks**, GenSpring serves clients with a minimum of $25 million in investable assets and has seen its assets under advisement skyrocket to $15 billion from $500 million since 2001. Inlign, founded in 2002, will be wrapped under the GenSpring name. Another ultra high net worth firm, **Silvercrest Asset Management Group**, acquired **Marathon Capital Group** of Boston. The deal added $600 million in assets to the $9 billion Silvercrest already had under advisement and strengthened the company's presence in New England.

In September 2008, investors in the U.S. voted with their feet as never before, with stock and bond mutual funds suffering a record outflow of $72 billion.

Asset Management Finance provided the capital for **PHH Investments**' $25 million acquisition of **RAA Wealth Management** from **E*Trade Financial Corp.**, a combination of two Dallas wealth managers with a total of $2 billion in AUM, a niche managing retirement assets for airline pilots, and a foothold in a dynamic wealth market. AMF provides capital in return for a limited-term, revenue-share interest, as opposed to a shareholding or conventional debt. Since its founding in 2003, AMF has completed 13 transactions. The company was itself sold last year by **National Bank of Canada** to **Credit Suisse Group** for $384 million *(see Cross Border)*.

A couple of small but notable firms made multiple deals, including the perennially active **Sanders Morris Harris Group** of Houston, which enhanced its operations in Chicago via the purchase of **Leonetti & Associates** and in Houston by buying **Miller-Green Financial**, in total adding $800 million in assets to the $17 billion it already managed. In explaining the decision to sell, both companies cited the opportunity to offer a greater array of services to their clients. SMH, which made five acquisitions of wealth and asset managers in 2007 and 2008, said it is "studying ways" to separate its wealth and asset management business from its more volatile capital markets division "while maintaining the frequently beneficial linkages between the two areas." **Fisher Investments** of California served notice about its expansion plans by making its first acquisitions in the high-net-worth market, buying Houston's **Lighthouse Capital Management** (AUM: $460 million) and Michigan's **EconoStrat Advisory Corp**. (AUM: $65 million). Fisher, founded in 1979, plans to double AUM to $100 billion and make five to 10 acquisitions a year. Its founder and CEO, Ken Fisher, maintains a high profile in the media, including his role as a columnist for Forbes magazine.

There were two management buyouts of note. Employees at Portland, Ore.-based **CTC Consulting** bought out owner **Bank of America** (which acquired the firm from U.S. Trust in 2000), as CTC chairman and CEO Garbis Mechigian returned the firm to its roots as an independent entity. CTC, which serves an ultra high net worth clientele, has $28 billion under advisement. **Papamarkou Asset Management** president and CEO Karl Wellner bought out the 26-year-old ultra high net worth firm. In 2003, Wellner assumed the reins of New York-based Papamarkou as part of a strategic alliance with European fund of hedge funds manager **Key Asset Management**, where he had been in charge of U.S operations. Papamarkou, with $2 billion in AUM, specializes in alternative investments.

Sienna Group of Seattle added its name to the growing list of private equity funds gaining exposure to the wealth management industry, via a $40 million investment in **Freestone Capital Management** (AUM: $2 billion). Seattle-based Freestone, founded in 2003 by a former Salomon Smith Barney financial consultant, Gary Furukawa, said the capital would allow it to expand along the West Coast. The company offers its clients an internally managed hedge fund and several fund of hedge funds. Sienna was started up in 2003 by Scott Svenson, who founded and then sold to Starbucks the U.K.-based Seattle Coffee Company chain. **Lovell Minnick Partners**, an established investor in asset managers, took a majority interest in **Mercer Advisors** (AUM: $3.6 billion) of Scottsdale, Ariz., which draws clients from the medical community. Mercer said the capital would allow it to "better and more quickly develop our client service offerings."

A couple of publicly traded Pennsylvania banks stepped into local markets, including **Susquehanna Bancshares** for the second straight year, buying **Stratton Holding Co.** (AUM: $3 billion) based near Philadelphia. The bank said the deal brings "additional investment expertise and diversity of product offerings" while allowing it to "create a more stable revenue stream." Susquehanna, which in 2007 expanded its banking operations through the acquisition of Community Banks, had $6 billion in assets under management or administration prior to the deal. **Bryn Mawr Bank Corp**. acquired a small Delaware-based financial planning and advisory firm, **Lau Associates**, for as much as $19 million, in line with its plans for expansion into that neighboring state. The deal added $600 million in AUM to Bryn Mawr's existing $2.2 billion in assets under management and administration, a number the company plans to build to $5 billion within five years.

National Bank of Canada made four domestic investments in brokerages and wealth managers designed to enhance its wealth management business, with three of the targets meeting the company's strategic goal of expanding beyond its base in Quebec. The one acquisition in Quebec, where NBC is the No. 1 wealth management bank, involved **Retirement Option Group**, a securities broker with $1.4 billion in AUM. NBC also cut deals for two Winnepeg-based firms, acquiring **Bieber Securities** and taking a stake in larger **Wellington West Holdings**. Founded in 1993 as a boutique advisory firm, Wellington has ambitious growth goals that it planned to underwrite via an IPO. But

unfavorable markets conditions led Wellington to raise capital via a rights issue and then the sale of a 12.5% equity stake for $35 million to NBC, with which it has enjoyed a long business relationship. The deal includes a provision for an additional $35 million capital contribution from NBC if certain targets are met within the next three years.

Wellington has seen its assets under administration grow nearly five times since 2002, to $10 billion, and has set a goal of $17 billion by 2010. NBC said the Wellington deal reflects its "commitment to invest in wealth management businesses across the country and expand our distribution alternatives, even in the current challenging market environment." The fourth NBC acquisition involved Toronto's **Aquilon Capital Corp**., which manages $500 million in assets for 1,500 clients. NBC, with $240 billion in assets under management or administration, is targeting small wealth managers that are "no longer able, with good reason, to shoulder the regulatory burden."

In the U.K., there were two domestic transactions of note, including **Legal & General Group**'s $120 million acquisition of **Suffolk Life**, a "mass affluent" firm and one of the leading providers and administrators of self-invested personal pensions, the individual pension scheme in the U.K. Suffolk Life has seen its assets under administration grow fivefold since 2003, to more than $5 billion, but believed it needed a larger partner with distribution muscle. In selling to Legal & General, Suffolk becomes part of one of the U.K.'s largest insurers and an asset manager with more than $500 billion in AUM, including a leading position with index-tracking investments. In the second deal, **Rathbone Brothers** acquired **Citywall Financial Management**, a small private client and institutional firm that extends Rathbone's presence to Exeter, in the southwest part of England. Rathbone, based in London, is an independent wealth manager with more than $21 billion in AUM.

Institutional / Mutual Funds

In September 2008, investors in the U.S. voted with their feet as never before, with stock and bond mutual funds suffering a record outflow of $72 billion, or three times the previous monthly high set in September 2001, according to researcher TrimTabs. Then came the free fall during the first two weeks of October, when investors pulled a total of $117 billion from U.S. equity and bonds funds.

By November, when outflows totaled $41 billion, the combination of the stock market collapse and redemptions left equity funds with assets of $3.6 trillion, nearly $3 trillion less than in December 2007 and even significantly below the $4.6 trillion in equity funds at the height of the long bull market that ended in 2000, according to the Investment Company Institute. The winners in this dust-up? Old-fashioned cash, bank deposits and money market funds, totaling nearly $9 trillion in December. That amount was equivalent to 74% of the stock market value of companies in the S&P 500, the highest ratio since 1990, according to the Leuthold Group and Bloomberg.

Nevertheless, the marketplace remained active last year, with a total of 77 mutual fund and institutional transactions taking place worldwide, primarily during the first three quarters.

The impact of the market turbulence on a broad range of U.S.-based mutual fund and institutional managers became apparent as companies released gloomy third-quarter results that did not even take account of the carnage in October. At **AllianceBernstein Holding**, a largely institutional firm, AUM dropped 28% in the third quarter from the year-earlier period (13% in September alone) to $590 billion while earnings were off 37%. **Affiliated Managers Group**, with a portfolio of diverse asset managers, saw its AUM decline 25% to $207 billion while earnings dropped 42%. Boutique fund manager **Calamos Asset Management** suffered a 29% decline in AUM between September 2007 and 2008 to $33 billion, as well as a net loss. **Merrill Lynch** figures asset managers as a group will experience a 29% drop in AUM in 2008.

The institutions that fuel activity in the asset management industry were also hammered. **Calpers**, the largest U.S. state pension fund, saw its assets drop 20% between June and the third week of October, to $193 billion. The loss of nearly $50 billion in assets led the pension fund to issue a press release reassuring already-stretched governments in California as well as the public that contribution rates for the 2008-09 fiscal year would not be affected. Calpers would not make any promises beyond that period, however. The state's other massive pension fund, the **California State Teachers' Retirement System**, reported a 9% drop in assets during the third quarter to $147 billion.

For investment managers, the toll exacted by the stock market collapse is bad enough. But a second potential long-term issue could prove equally significant: will individual investors, battered over the last decade by a succession of financial trials, lose faith in equities? Similarly, will institutions that have recently made the intellectual and psychological leap into hedge funds also re-evaluate their risk tolerance, or will the need for superior returns compel them to stay the course on equities and alternatives?

A KPMG survey of asset and fund managers released in July 2008 highlights concerns within the industry: 60% of fund

managers worldwide interviewed by the consulting firm agreed that trust in their industry has been eroded by the financial crisis while only 10% disagreed (29% weren't sure). Only 55% of respondents disagreed with the proposition that the fund industry would be managing fewer assets in two years (about a quarter were on the fence).

Nevertheless, the marketplace remained active last year, with a total of 77 mutual fund and institutional transactions taking place worldwide, primarily during the first three quarters. The combined transaction value of $8.7 billion marked a sharp decline from 2006 and 2007 but exceeded the annual totals registered in the four years through 2005. As in other sectors of the asset management industry, dealmakers were particularly active across borders in Europe and Asia, though transatlantic deals were limited (see Cross Border). Within the U.S., private equity players continued to exert their influence, as they took part in a couple of significant transactions.

TA Associates, which in 2007 invested in three asset managers (including **Jupiter Asset Management** of London), last year purchased a minority stake in Chicago's **Keeley Asset Management** (AUM: $10 billion) for an estimated $500 million. The Keeley business, founded in 1982 and family run, is dominated by the established Keeley Small Cap Value Fund. Keeley, which at the time of the transaction announced an employee equity plan, said the investment would "help us to continue to serve our clients and grow our organization." TA said the firm "typifies the attractiveness of the asset management business, with recurring revenues, high margins and a non-capital intensive business." Founded 40 years ago and based in Boston, California and London, TA holds stakes in six asset managers.

The second private equity deal of note involved the acquisition by **Lighthouse Holdings, Inc.** of 90% of **American Beacon Advisors** (AUM: $65 billion), the asset management arm of American Airlines' parent AMR Corp. The $480 million transaction was staged by two private equity firms, **Pharos Capital Group** and **TPG Capital**, via a new joint company, Lighthouse. The two private equity firms enjoyed business ties prior to the deal, and Pharos co-founder Kneeland Youngblood was a member of the American Beacon board. In a similar approach, private equity firms **Bain Capital** and **Hellman & Friedman** teamed up in an ultimately unsuccessful effort to acquire **Lehman Brothers' Neuberger Berman** asset management unit (see Wealth Management).

Ameriprise Financial made its first major asset management acquisition since its 2005 spinoff from **American Express**, purchasing **J. & W. Seligman** for $440 million. New York-based Seligman, whose history dates to the Civil War, has $18 billion in AUM in a mix of mutual funds, hedge funds and institutional accounts, with a niche as a technology and value investor. Ameriprise chairman and CEO Jim Cracchiolo said the deal "reinforces our growth strategy, and in particular our efforts to grow our higher margin businesses." Seligman is also expected to help expand the distribution network for Ameriprise's in-house **RiverSource** funds. In keeping with Ameriprise's "broad-based, multi-boutique asset management strategy," the acquired funds will retain the Seligman brand name. In a second deal, Ameriprise subsidiary **Securities America Financial Corp.** acquired broker dealer **Brecek & Young Advisors**. Based in California, Brecek & Young adds $1.3 billion in AUM to the $14 billion already managed by Securities America, as well as 300 financial advisors.

Institutional / Mutual Fund Transactions

	2004	2005	2006	2007	2008
Number of Transactions	50	56	49	62	77
Combined Value ($B)	$5.8	$7.9	$34.7	$15.1	$8.7
Total Seller AUM ($B)	$593	$836	$1,920	$718	$683
Average Deal Size ($M)	$116	$140	$708	$244	$113
Average Seller AUM ($B)	$11.9	$14.9	$39.2	$11.6	$8.9

Source: Berkshire Capital Securities LLC

Two perennial buyers of asset managers were busy last year, **Federated Investors** and Affiliated Managers Group. Federated, whose large money market business helped secure its asset base last year, made four diverse tack-on acquisitions. The largest, by AUM, involved a distress sale in which Federated wrapped the $12.3 billion **Putnam Prime Money Market Fund** into its "AAAm"-rated $22 billion **Federated Prime Obligation Fund**. The deal did not involve a purchase price; rather, Federated provided full value for the shares following **Putnam Investments**' liquidation of the fund under severe pressure from redemptions. In another acquisition that appeared designed to meet demand for investments in uncertain markets, Federated acquired the **Prudent Bear Fund** (AUM: $1.2 billion) and the **Prudent Global Income Fund** (AUM: $507 million) from **David W. Tice & Associates** for $43 million, with contingent payments of up to $99.5 million over the next four years. The deal includes an agreement to retain key investment personnel.

The two other deals enhanced Federated's equity fund business (accounting for 11% of the company's total AUM of $338 billion), including the purchase of value investor **Clover Capital Management** (AUM: $2.8 billion) for $36 million, with five-year contingent payments that could bring the bill to $93 million. Clover serves individual investors and institutions through a combination of separately managed accounts and common and collective portfolios, and acts as subadvisor to several mutual funds. Federated said it plans to introduce three value-oriented equity funds managed by the Clover team. The smallest and first deal of the year saw Federated add $42 million in assets from the **CB Core Equity Fund** owned by **Central Bank & Trust Co.** of Kentucky. In the last five years, Federated has made 14 acquisitions of asset managers or funds.

Affiliated Managers Group announced a couple of similar-sized acquisitions of institutional managers in the third quarter, including **Gannett Welsh & Kotler** (AUM: $7 billion), a 34-year-old Boston firm with a mix of bond and equity strategies. GW&K management also retained equity, in line with AMG's affiliate model. Seller **Bank of New York Mellon** said the firm was no longer a good strategic fit. The second announced acquisition, involving the purchase of 60% of **Harding Loevner** (AUM: $6 billion), was restructured and postponed in January 2009, with AMG citing "market conditions." The company said the amended agreement "provides the option for the transaction to be completed during the second half of 2009 on terms consistent with the original agreement." Founded in 1989, New Jersey-based Harding Loevner specializes in global growth equities.

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Prior to the onset of their own travails, two New York investment banks acquired the U.S. fixed income assets of **Robeco**, with **Morgan Stanley** taking the Dutch asset manager's U.S. taxable fixed income unit (AUM: $4.8 billion) and **Lehman Brothers** the nontaxable U.S. fixed income business (AUM: $1.5 billion). Robeco, with limited scale in the U.S. fixed income market, said it would focus instead on equities and alternatives. Boutique investment bank **Lazard** will pay $240 million in cash and stock over three years to buy the minority stake in **Lazard Asset Management** held by management — a shareholding predating Lazard's IPO in 2005. Lazard said the deal helps simplify its capital and governance structure.

LAM and other Lazard-affiliated asset managers have $134 billion in AUM, primarily in equity investments and split evenly between North American and international operations (the largest international market is the U.K.). Other deals involving major players included **Nuveen Investments**' acquisition of **Winslow Capital Management**, a large cap growth specialist with $4 billion in AUM, and **Eaton Vance**'s purchase of the tax advantaged bond strategies business of **M.D. Sass Investors Services**, consisting of $6.5 billion in assets managed for institutions and high net worth individuals.

Smaller financial firms were also building scale, including wealth manager **First Western Trust Bank of Denver**, which acquired Los Angeles-based **Financial Management Advisors** (AUM: $1.5 billion). The deal doubled First Western's AUM, added a fixed income institutional business, and extended its footprint to California. New York's **Annaly Capital Management** bought **Merganser Capital Management** (AUM: $4.8 billion), an established Boston-based institutional manager that adds traditional fixed income capabilities to Annaly's specialty in mortgage-backed securities. In a deal between two smaller privately held firms, **Forward Management** of San Francisco acquired Seattle-based **Accessor Capital Management** (AUM: $3.3 billion), creating a combined company with more than $5 billion in AUM and 34 funds.

Two major asset managers made small acquisitions: **Fidelity Investments** bought the mutual fund business of **Capital One**, consisting of $700 million in AUM in a mix of equity and government bond funds, all of which will be wrapped into existing Fidelity funds; and **Northern Trust Bank** bought **Lakepoint Investment Partners** (AUM: $580 million). A 9-year-old Cleveland-based institutional manager that invests primarily in large-cap stocks and investment-grade fixed income securities, Lakepoint doubles Northern Trust's business in Cleveland.

The one mutual fund deal of note involving a European buyer and U.S. seller saw **Natixis Global Asset Management** acquire **Gateway Investment Advisers** (AUM: $7.9 billion), manager of the $4.3 billion **Gateway Fund** and a variety of subadvised mandates and private accounts. Gateway, based in Cincinnati and founded in 1977, said the link with Natixis provides "prospects for a higher growth rate than was possible as an independent organization." The company pursues a "risk-conscious approach" that mixes equity investments with index-hedging strategies, an approach consistent with Natixis' interest in expanding its lineup of alternative investments. In 2007, Natixis bought **AlphaSimplex Group**, a multi-strategy, quantitative firm based in Cambridge, Mass.

Natixis (AUM: $900 billion) was formed in 2007 from the merger of two French financial services firms, **Group Caisse d'Epargne** and **Group Banque Populaire**, and remains perhaps the most obscure asset manager of its size. The company is made up of a variety of affiliates, including **AEW Capital Management**, **Harris Associates** and **Loomis, Sayles** in the U.S., but about two-thirds of its assets are managed in France. In a second cross border deal involving a major non-U.S. buyer, **Macquarie Group** of Australia acquired a majority of fixed income fund manager **Allegiance Investment Management** of California (AUM: $4.5 billion).

The ongoing consolidation of Canada's asset management industry continued last year with several significant deals, including two billion-dollar-plus transactions. The largest involved **Bank of Nova Scotia**'s $2.1 billion cash-and-share purchase of the 37% stake in **CI Financial Income Fund** owned by **Sun Life Financial**. With some $50 billion in AUM, CI Financial is the third-largest mutual fund company in Canada and twice the size of Scotiabank's mutual fund business. Last year, Scotiabank also formed a mutual fund joint venture in China, acquired a minority interest in a Latin American pension fund, and bought **E*Trade Canada** (see Cross Border).

In 2007, Scotiabank took an 18% stake in **DundeeWealth**, beating out a competing bid from CI Financial. Analysts speculated that Sun Life would use the capital from the sale for opportunistic acquisitions in the broader financial services industry.

The second mega-deal involved **Royal Bank of Canada**'s $1.4 billion acquisition of **Phillips, Hager & North Investment Management**. One of Canada's largest independent asset managers, Phillips has $70 billion in AUM, primarily managed for institutions. The all-stock transaction creates one the nation's largest pension fund managers and the second-largest mutual fund manager. John Montalbano, president of Vancouver-based PH&N, became CEO of the combined unit, which will have $160 billion in AUM. He praised RBC for having the "commitment and resources to leverage our strengths with institutional, private client and mutual fund clients." RBC made two other asset management deals of U.S. companies *(see Cross Border)*.

IGM Financial enhanced its leading mutual fund business by acquiring publicly traded **Saxon Financial** for $285 million in cash. A value-oriented firm, Saxon has some $13 billion in AUM, $11 billion of which is managed for institutions and high net worth investors. The deal also offers IGM the opportunity to piggyback on the subadvisory and distribution relationship Saxon has with **CMA Holdings**, the holding company for the Canadian Medical Association and its financial services subsidiary, **MD Financial**. IGM, majority owned by **Power Financial Group** (which in late 2006 acquired Putnam Investments in the U.S.), has $120 billion in AUM, almost entirely in mutual funds.

Co-operators Group paid $307 million to buy fixed income institutional firm **Addenda Capital** (AUM: $29 billion). The deal merges Ontario-based insurer Co-operators, an amalgam of 40 Canadian co-operatives and credit unions, with Montreal-based Addenda to create a national firm with $40 billion in AUM (the combined firm will operate under the Addenda name). In a tie-up between two fast-growing firms, DundeeWealth paid $26 million to buy 60% of **Aurion Capital Management** (employees retained the remainder), as it sought to strengthen its institutional business. Aurion, with $4.5 billion in AUM, offers a range of investment products. Publicly traded DundeeWealth has $31 billion in AUM, primarily in mutual funds, with another $28 billion in assets under administration.

Separately, DundeeWealth purchased 89% of Pennsylvania's **BHR Fund Advisors**, a distribution platform for several small institutional funds "whose investment expertise has not been broadly available in a mutual fund vehicle." The deal extends the reach for DundeeWealth's funds into the U.S. In a deal between two Calgary-based entities, privately owned **Canoe Financial** paid $140 million for **EnerVest Diversified Management**, the manager of the **EnerVest Diversified Income Trust**, a closed-end trust primarily invested in energy and REITS, with a total of $2 billion in assets. Canoe is the investment vehicle of Bruce Chernoff, a chemical engineer who co-founded Harvest Energy Trust, a publicly traded Calgary-based oil and gas royalty trust.

Within Europe, the largest domestic deal involved **Allianz's** acquisition of German fund manager **Cominvest** from **Commerzbank** as part of the insurer's $9.8 billion sale of a majority stake in **Dresdner Bank** to Commerzbank. Allianz, which retained a 30% share in Dresdner, bought the troubled bank in 2001 in a bid to expand beyond its traditional insurance business into retail and investment banking. The two firms also merged their respective asset management units, including American fund managers **Pimco** and **Nicholas Applegate**, acquired by Allianz in 1999 and 2000 as it sought to build a global business.

The $940 billion deal for Cominvest (AUM: $72 billion) created Germany's largest asset manager, with some $410 billion in AUM. Significantly, Allianz said it would continue to distribute its products through Commerzbank's extensive banking network. For its part, the divestiture of Cominvest continues the steady unwinding by Commerzbank of its asset management unit, though the company retains a large private client business in Germany.

There were two transactions of note in the U.K., including the effective takeover of fund manager **New Star Asset Management** by a syndicate of its lenders. The banks involved — including **Lloyds TSB, HBOS,** and **Royal Bank of Scotland** — were all New Star creditors that agreed to swap the fund manager's debt for 75% of New Star's enlarged ordinary share capital as well as the lion's share of new convertible shares paying an attractive dividend. New Star, which faced a redemption-driven liquidity crunch, enjoyed a fourfold increase in AUM to $35 billion in the four years through 2007 followed by a 40% decline last year. In the second deal, London-based hedge fund **GLG Partners** expanded its long-only business in Europe by acquiring **Societe Generale**'s British fund manager (AUM: $8 billion). Prior to the deal, traditional equity funds accounted for around 15% of GLG's AUM, which dropped 30% in the first three quarters of 2008 to $17.2 billion. GLG said it was "looking forward to broader collaboration with Societe Generale in the future."

Cross Border

Asset managers continued to negotiate cross border transactions at an aggressive pace in 2008, but the year was also notable for a failed deal between **Fortis Investments** and **Ping An Insurance** that symbolized the gathering chaos in the marketplace. Last March, Ping An, China's second-largest insurer, announced to much fanfare that it would pay $3.2 billion for a 50% interest in Fortis Investments (FI), coming on the heels of the 5% stake it had taken in Belgian-Dutch parent Fortis in late 2007 and early 2008. Six months later, the proposed transaction collapsed, a victim of "current turbulent market circumstance," as both sides put it.

Between the two announcements, FI's assets had declined sharply, faltering parent Fortis had to be saved by a consortium

of governments, and Ping An was forced to take a $2.3 billion charge against earnings to account for the diminished value of its Fortis investment. The scrapping of the Ping An-Fortis Investments transaction provided a high-profile pause to an otherwise busy year that witnessed 60 small- to mid-size cross border deals valued at $4.3 billion.

The world's emerging markets were particularly active, and there were numerous agreements between Western and Asian firms that did reach successful conclusions, including Chinese investment in Europe. At the same time, the transatlantic pipeline remained subdued, and even the strength of the euro in the first half of 2008 did not generate a burst of activity. In the hedge fund sector, where cross border deals are common, there were numerous transactions involving targets based in the industry's capital, London (see Alternatives).

Within Continental Europe, the largest proposed transfer of AUM highlighted the opportunities created by the crisis, as **BNP Paribas** swooped in one week after the Ping An divorce to gobble up Fortis' asset management division, as part of its larger government-facilitated $19.6 billion purchase of Fortis' banking and insurance operations in Belgium and Luxembourg. Fortis' Dutch business remains in the hands of that nation's government. Although a subsequent shareholder challenge to the break-up of Fortis was upheld by the Brussels Court of Appeal, the Belgian government vowed to persevere with the deal.

If the court ultimately approves the transaction, the addition of Fortis' asset management business will make BNP the fifth-largest European asset manager (combined AUM: $700 billion, as of June 2008), with half the $270 billion in acquired AUM in Benelux and 25% elsewhere in Europe. In addition, BNP would gain $75 billion in AUM from Fortis' private bank, creating Europe's seventh-largest private bank, with $265 billion. For BNP, the addition of Fortis' asset management unit is a particularly attractive aspect of the overall deal, since the business requires little capital. Baudouin Prot, CEO of BNP, said the transaction represents "a quantum leap in asset management and private banking" for his company.

The acquired business incorporates much of the former asset management operation of ABN Amro that Fortis gained as part of the massive three-way deal for that bank in 2007. Among those former holdings: U.K. fund manager **Artemis** (AUM: $18 billion), whose "change of control" agreement with ABN Amro forced Fortis to pay $570 million last year for the one-third of Artemis it did own. BNP was active elsewhere in Europe and globally, cutting four strategic deals prior to the opportunistic purchase of Fortis. These included the acquisition of **IMS Group** (AUM: $9.6 billion), a London-based institutional multi-manager that BNP wrapped into its multi-manager flagship, **FundQuest**, with $64 billion in assets under management and administration. The addition of IMS extends FundQuest's footprint outside the U.S. and France into the U.K.

In a second more complex European deal, BNP paid $80 million for a 35% interest in **Insinger de Beaufort Holdings**, the Anglo-Dutch bank holding company for venerable wealth manager **Bank Insigner de Beaufort**. In turn, BNP and Insigner de Beaufort plan to merge their respective Dutch and U.K. operations to create a wealth manager with $13 billion in AUM, in which BNP will hold a 60% to 65% share. BNP said the deal is in line with its strategy to "strengthen its position" in "select European countries." In South Korea, BNP and **Shinhan Financial Group** merged their joint venture (**Shinhan BNP Paribas**) with **Shinhan Asset Management Co**. to create a top-three Korean asset manager, with $22 billion in AUM. BNP also acquired a 25% stake in **Saudi Investment Bank**'s asset management business (AUM: $2.2 billion), an investor in Gulf stocks and Islamic funds. BNP has some $50 billion in AUM in emerging markets.

Cross Border Transactions

U.S. - International	2004	2005	2006	2007	2008
Number of Deals	15	13	24	19	22
Value ($B)	$3.4	$1.7	$8.3	$5.6	$0.9
International - International	**2004**	**2005**	**2006**	**2007**	**2008**
Number of Deals	15	23	24	44	38
Value ($B)	$0.9	$7.8	$1.4	$6.1	$3.3
Total	**2004**	**2005**	**2006**	**2007**	**2008**
Number of Deals	30	36	48	63	60
Value ($B)	$4.2	$9.5	$9.7	$11.7	$4.3

Source: Berkshire Capital Securities LLC

Bank of China tapped Europe for two deals, the larger of which was the $340 million purchase of 20% of Paris-based **La Compagnie Financiere Edmond de Rothschild**. Bank of China called the investment part of its "global development strategy" and said it would leverage Rothschild's expertise to strengthen its domestic private banking business *(see Wealth Management for more details)*. In 2007, BoC teamed with **Royal Bank of Scotland** to open a private bank targeting Chinese with at least $1 million in investable assets. In the second deal, BoC paid $8.7 million for a 30% stake in **Heritage Fund Management** (AUM: $470 million), a Swiss hedge fund *(see Alternatives)*.

Another Asian giant, **Mitsubishi UFJ**, paid $190 million for a 9.9% share in **Aberdeen Asset Management** and the exclusive right to distribute the Scottish fund manager's products to domestic institutional investors. MUFJ, with $245 billion in AUM and a strong presence in Japan's institutional marketplace, can raise the shareholding to 19.9%. Aberdeen CEO Martin Gilbert said the partnership enhances his firm's

global distribution and client base and "accelerates a strategic objective of establishing ourselves in Japan," the No. 2 pension market in the world. Last October, MUFJ pumped $9 billion into **Morgan Stanley** (21% of equity).

Within Europe, Aberdeen Asset Management wrapped up the year by announcing it will acquire the long-only fund management business of **Credit Suisse Group**, which will in turn receive a 25% shareholding in Aberdeen. The deal, valued at around $365 million, gives Aberdeen $70 billion in diversified AUM and bolsters its scale in markets where it already operates such as Germany, Switzerland and the U.K. Aberdeen had $160 billion in assets under management and advice prior to the transaction. "This transaction fits perfectly within our strategy, a key part of which has been to make earnings-enhancing acquisitions which give the business critical mass in our core competencies," said Martin Gilbert, chief executive of Aberdeen.

There were two wealth management deals involving Swiss buyers. In a year when it faced enormous financial challenges, **UBS** continued to extend its footprint via the acquisition of Amsterdam-based **VermogensGroep** (AUM: $5 billion), an ultra high net worth firm. The deal provides UBS with "immediate scale" in the Dutch market while offering VermogensGroep the benefits of a global partner *(see Wealth Management)*. **EFG International** gained entry to the French market through the purchase of a small but fast-growing Parisian company, **Sycomore Gestion Privee** (AUM: $630 million). Sycomore, founded in 2004 by alumni of the private banking operations of **J.P. Morgan** and **HSBC**, said the connection with EFG will allow it to "embark on a new stage of development" with a "structure capable of offering the full range of services." EFG has made 18 acquisitions of asset managers and securities firms in the last four years.

In a second, larger deal with a French target, **KBL European Private Bankers** acquired independent wealth and fund manager **Richelieu Finance** (AUM: $6 billion), in line with its goal of building "critical mass" in that market. KBL has made three acquisitions in France since 2005. Part of Brussels-based **KBC Group**, KBL has a network of private banks in eight European markets with combined AUM of $85 billion. KBL's enlarged French business will operate under the Richelieu name. In Spain, **Morgan Stanley** sold its brokerage and "mass affluent" wealth management business to one of that country's largest financial services firms, **La Caixa**, for a price estimated at $900 million. With the addition of the Morgan Stanley business, La Caixa becomes a top-three private bank. For its part, Morgan Stanley retained its ultra high net worth Spanish business, in line with its global focus.

Cross Border Transactions by Domicile and Type

	Buyer: / Seller:	U.S. / International	International / U.S.	International / International	Total
2007					
Personal / Trust		0	3	15	18
Institutional / Mutual Fund		4	3	12	19
Other		6	3	17	26
Total		10	9	44	63
2008					
Personal / Trust		5	2	21	28
Institutional / Mutual Fund		3	4	9	16
Other		5	3	8	16
Total		13	9	38	60

Source: Berkshire Capital Securities LLC

In an institutional deal with a Swiss target, **Schroders** acquired the third-party fund management business of **Swiss Re, Swiss Re Asset Management Funds**, comprised of six funds with $1.4 billion in AUM. The British firm said the purchase "deepens our footprint" in Switzerland, the third-largest institutional market in Europe. Schroders cut a second deal in its largest regional market outside the U.K., Asia-Pacific, acquiring Taiwan's **E.Sun Investment Trust**. E.Sun has seven funds and AUM of $250 million but most importantly a Securities Investment Trust Enterprise license that allows Schroders to distribute domestic and international onshore funds. Asia-Pacific accounts for one-third of Schroders AUM, which in the third quarter was $170 billion, down 17% from December 2007.

Dutch insurance and asset management giant **Aegon** cut four deals designed to enhance its presence in emerging markets, three of which targeted Central and Eastern Europe, where Aegon aims to double its pension fund business. In Hungary, Aegon bought two asset management units owned by **Uniqa Insurance** (part of Austria's **Uniqa Group**) that add $450 million to the $2.4 billion in assets Aegon already managed in that market. In Poland, Aegon completed an earlier agreement to purchase **BRE Bank**'s shareholding in their joint pension business, the fifth-largest pension fund manager in Poland (AUM: $2.6 billion). BRE Bank is majority-owned by **Commerzbank**. Aegon also entered the Turkish insurance and pension market by acquiring **Ankara Emeklilik**, with $50 million in AUM.

In China, Aegon built upon its existing insurance operations to enter the fund business via the maximum allowable 49% shareholding in Shanghai-based **Industrial Fund Management** (AUM: $4.6 billion), owned by **Industrial Securities**. Aegon, which has had an insurance joint venture in China since 2002, called Asia "an essential pillar" in its international growth strategy. Another Dutch giant, **ING Group**, also entered the Turkish pension market, paying $140 million for

Oyak Emeklilik, that nation's only voluntary pension fund. Oyak Emeklilik was started up in 2003 by Turkey's large and influential armed forces pension fund, **Oyak**. In 2007, ING paid $2.7 billion for **Oyak Bank**, the retail banking subsidiary of Oyak. ING also acquired Swiss multi-manager **Altis Investment Management** in a bid to enhance its fiduciary business. Altis manages around $14 billion in assets for institutions and family offices.

In Russia, **Deutsche Bank** purchased 40% of Moscow-based **UFG Invest**, part of **UFG Asset Management**, with the option to boost that to 100%. Deutsche will combine UFG Invest with its existing Russian asset management business. Started up in 1996, UFG Invest has $500 million in AUM for private clients and institutions. Deutsche has been recording 20% to 30% annual growth in its wealth management business in emerging markets in Europe and the Middle East. Deutsche also raised its stake from 20% to 30% in Beijing's **Harvest Fund Management**, one of China's largest fund managers, with $36 billion in AUM.

Asia was again the center of emerging market deal activity for banks, insurers and asset managers, as the region continues to exhibit strong growth in the mutual fund industry. In 2008, as European equity funds endured $139 billion in net outflows in the first half, their Asian counterparts generated $47 billion in net inflows, according to Investment Company Institute. Strategic Insight believes Asian stock and bond fund assets could jump nearly six times to $8 trillion by 2012, but even allowing for "economic uncertainty" could still double to $3 trillion.

China remained the center for deals, with reports surfacing in September that Beijing would raise the equity ceiling for asset management joint ventures involving non-Chinese banks from 33% to 49%. Currently, non-banking foreign institutions are allowed up to a 49% share in such ventures. Deutsche Bank and Aegon were joined in the market by several other European investors, including **Old Mutual**, which paid $240 million for Fortis' 49% shareholding in **ABN Amro TEDA Fund Management** (AUM: $2.5 billion). The northern coastal city of Tianjin owns the other 51%, through its investment arm. Old Mutual called the deal "a rare opportunity to buy a sizable stake in a well-established and well-managed asset management business in the region." Asia Pacific accounts for less than 2% of Old Mutual's $375 billion in funds under management.

Aviva Investors, the asset management unit of British insurer **Aviva**, took a 40% stake in a Shanghai-based joint venture with two Chinese firms, **China National Oils, Foodstuffs and Cereals Corp.** and **Dongguan Trust and Investment Co.** Aviva and China National Oils have had an insurance joint venture since 2003. Aviva Investors, formerly known as Morley, was rebranded last year as part of an effort to create a "globally integrated" asset management business. Aviva Investors operates in 15 countries worldwide, with the small Asia-Pacific business primarily based in Australia. **Bank of Nova Scotia** paid $15 million for a 33% stake in a new mutual fund joint venture with **Bank of Beijing**. In addition to its base in the capital, publicly traded Bank of Beijing has branches in several other Chinese cities, including Shanghai (ING holds a 16% stake in the bank). In a second emerging market deal, Scotiabank purchased a 48% interest in private Peruvian pension fund **Profuturo**, for $33 million. With a 17% market share, Profuturo is the No. 4 player in the pension market.

> Along the more established transatlantic route, the largest transaction involved ING's $900 million purchase of CitiStreet, the retirement plan and benefit service and administration business jointly owned by Citigroup and State Street.

In Taiwan, **Manulife Financial Corp.** acquired **Fuhwa Securities Investment Trust**, adding seven equity and fixed income funds and $1.3 billion in AUM to its small asset management operations in that market. Through its **MFC Global Investment Management** subsidiary, Manulife's fast-growing Asian asset management business has $25 billion in AUM. India has joined China as a high-priority market among Western financial firms, but transactions trickled to a handful after a busy 2007. **Standard Chartered**, which counts India among its major banking markets, sold its local mutual fund company to India's **Infrastructure Development Finance Co.**, as it chose to focus instead on fund distribution.

In South Korea, a perennially active market, **AXA** bought a 50% stake in **Kyobo Investment Trust Management** from parent **Kyobo Life**, the nation's second-largest insurer. Kyobo Investment has $15 billion in AUM, primarily in fixed income investments for Kyobo Life, making it the seventh-largest asset manager in South Korea. AXA has asset management operations in six other markets in Asia-Pacific. **Franklin Templeton Investments** staked an early claim in Vietnam by purchasing 49% of **Vietcombank Fund Management**, with a near-term eye on private equity deals. Franklin said it intends to eventually make mutual funds available to Vietnamese investors. The majority shareholder is commercial bank **Vietcombank**.

In Brazil, **Santander** acquired from Fortis the former asset management business of ABN Amro. As part of the three-way deal for ABN Amro in 2007, Santander took over the Brazilian banking business while Fortis gained the asset management unit. In explaining the $300 million deal, Santander said it made strategic sense to purchase the business given the extensive retail distribution system it had gained in Brazil. **Prudential Financial** acquired 40% of one of Brazil's largest independent asset managers, **GAP Asset Management** (AUM: $2 billion). The two companies said they will focus on the retirement

and wealth management areas and develop mutual funds for institutions.

Along the more established transatlantic route, the largest transaction involved ING's $900 million purchase of **CitiStreet**, the retirement plan and benefit service and administration business jointly owned by **Citigroup** and **State Street**. The Dutch firm said CitiStreet's strength in the mid-size and large corporate markets complements its focus on the small- and mid-corporate government and education markets while "significantly" expanding its scale in the U.S. retirement service business. The deal makes ING the third-largest defined-contribution business in the U.S, with $300 billion in assets under administration and management.

Credit Suisse Group paid $384 million for more than 80% of **Asset Management Finance**, a unique New York firm that provides capital to asset managers in return for a passive, limited-term, revenue-share interest, as opposed to a shareholding. Started up in 2003 by the former head of United Asset Management, Norton Reamer, the company has completed 13 transactions, including four in 2008. AMF said Credit Suisse can provide the resources needed to make bigger investments while expanding its scope outside North America. Credit Suisse acquired the shareholding from **National Bank of Canada**.

As part of several moves it made last year to expand its small asset management business, boutique investment bank **Evercore Partners** of the U.S. acquired a 50% interest in **Pan-Asset Capital Management** of London. Evercore also agreed to inject "substantial development capital" into their new company, **Evercore Pan-Asset Capital Management**. Started up in early 2008, Pan-Asset manages a portfolio of exchange traded funds for institutional and high net worth clients. Evercore has the option to acquire full control "at a later date." In a related deal, **Mizuho Corporate Bank** invested $120 million in Evercore Partners' debt and warrants as part of a bid to strengthen the asset management business. The Japanese bank also pledged to pump as much as $150 million more in Evercore funds. Evercore has more than $1 billion in AUM, primarily fixed income instruments managed by its Mexican subsidiary. In a second deal involving a Japanese investor and U.S. target, **Nippon Life** took a 5% stake in **Northwestern Mutual Life Insurance** subsidiary **Russell Investments** as part of a larger initiative by the two insurers to "assist each other in pursuing U.S. and Japanese investment opportunities." Russell, with $210 billion in AUM, serves investors in more than 40 markets. Japanese insurers, like that nation's banks, are increasingly seeking opportunities outside a domestic market with a declining population.

Royal Bank of Canada crossed the border to make two deals, including the acquisition of **Access Capital Strategies** of Boston, an 11-year-old institutional firm with $650 million in AUM that invests in debt securities supporting low income community development projects. The deal, done through RBC's Minneapolis-based **Voyageur Asset Management** unit (AUM: $34 billion), is designed to enhance the bank's lineup of "socially responsible" funds. The second transaction involved a 10% stake in hedge fund **O'Shaughnessy Asset Management**, a quantitative manager with $9.6 billion in AUM (see Alternative). In a third acquisition done with an eye on its wealth business, RBC acquired **Ferris, Baker Watts, Inc.**, a Washington, D.C.-based broker dealer. In September, RBC chief executive Gord Nixon told investors the turmoil in the U.S. financial sector would create opportunities for deals involving U.S. wealth managers, along with retail banks.

There were two U.S. deals involving investors from the Middle East. One of Israel's leading financial firms, **Bank Hapoalim**, paid $34 million for just over 50% of New York's **NuVerse Advisors**, a 7-year old wealth manager started up by former executives of Republic National Bank of New York. Bank Hapoalim, with $18 billion in AUM, called the deal "another clear indication of our ongoing transformation into a global bank." In the second deal, Dubai sovereign wealth fund **Istithmar World** took a majority stake in **Gulf Stream Asset Management**, a North Carolina institutional firm with $3.8 billion in AUM in corporate credit portfolios. In explaining the deal, Istithmar cited the "unparalleled growth opportunities in credit and credit-related investing." Gulf Stream said the alliance with Istithmar provides the chance to "build a global asset management platform."

Real Estate

In 2008, real estate proved as challenging an investment sector as any other, with commercial properties experiencing the stress of the financial meltdown and recession along with the more widely chronicled residential sector. Assets managed by real estate investment trusts declined more than 8% in the year through June 2008, according to Pensions & Investments, with major players such as **Cohen & Steers** and **Morgan Stanley** both experiencing asset declines of more than 20%. **Calpers**, a significant real estate investor, saw the value of the housing assets in its portfolio drop 35% from their original cost by the middle of last year.

London research firm IPD reported a big increase in property sales among real estate funds and REITS in the U.K., as companies scrambled to raise cash for redemptions. For October, IPD also reported the largest one-month drop in U.K. commercial property capital values during the 22 years it has been in business, of 4.3%. With property markets worldwide uncertain, many investors were holding on to billions in cash, but others were actively raising money to go bargain hunting, with Asia a particular focus. **Merrill Lynch** pulled in $2.7 billion for its first Asian-focused real estate fund, noting the "exceptional opportunities" existing in the region. **Morgan Stanley** is also raising billions for a fund that will invest in Asia, while **ING Real Estate Investment Management** is looking to add to the $300 million it has sitting on the sidelines in Asia.

Within the real estate advisory sector, a number of significant challenges loom, including the refinancing of $100 billion worth

of commercial real estate debt maturing this year that originated between 2005 and 2007. Based on the cash flow projections from the properties, analysts believe advisors will be hard-pressed to support these refinancings. Additionally, lenders are tightening borrowing requirements, with loan-to-value advance rates dropping from above 80% to 60%. Many advisors could also see their longer-term performance record wiped out by deals cut between 2005 and 2007, a reversal that could effectively lock these firms out of the capital markets.

The process of raising new capital from institutions will likely face one more roadblock wrought by last year's financial meltdown: with the sharp decline in the value of equity, fixed income and alternative investments, the value of property holdings in the portfolios of many institutions has climbed above asset allocation targets. There could be some winners, however, in particular those advisors already armed with capital who will likely find themselves in a position to acquire attractive assets at bargain prices.

Amid the turmoil in real estate markets, there were five advisory deals in 2008 valued at $358 million. One of the smallest components of the real estate investment business, timber, continued to grow on investors' radar screens, with the sector adding one point to account for 3.5% of tax-exempt property assets, according to *Pensions & Investments*. In another sign of interest in the sector, agribusiness investor **Radicle Projects** of the U.K. announced plans to raise up to $60 million for timber investments via the IPO of a new company on London's AIM exchange, **Radicle Timber Plantations**.

For the third time since 2004, a timber company also figured among the advisory deals, as executives at Atlanta-based **Forest Investment Associates** purchased the controlling stake of co-founder Charles Tarver in early 2008. Founded in 1986, FIA has $2.8 billion in assets in broadly diversified portfolios of timberland that it manages for institutions. The deal was financed by management and employees, with support from **Asset Management Finance**, which provides capital for acquisitions in return for a passive, limited-term interest in future revenues of the company (for more on AMF, see Cross Border). L. Michael Kelly, president of FIA, praised AMF for providing "the creativity and flexibility to help us structure our transaction in a way that sets FIA on a stable, independent path for many years to come." The Atlanta-based company seeks to generate "long-term returns in the range of 6%-10% above inflation."

The major advisory deal of 2008 took place in Europe, with the property fund arm of **Aberdeen Asset Management** tapping the market for the second straight year in acquiring London's **Goodman Property Investors**. Aberdeen paid an initial cash consideration of $130 million to acquire Goodman, the largest independent property fund manager in the U.K. The deal gives Aberdeen considerable heft in that market, adding some $10 billion in AUM to make it the No. 2 U.K. property fund manager (from No. 4). Globally, it propels Aberdeen from No. 17 to No. 8 among property investment managers, with some $35 billion in AUM. As an asset class, property jumps 5 percentage points to more than 21% of Aberdeen's AUM.

"The acquisition of GPI is a logical step in cementing our position as a leading global property asset manager," said Rickard Backlund, CEO of **Aberdeen Property Investors**, noting that a "significant U.K. platform was the missing piece" in its European business. Aberdeen also said the two companies would benefit from economies of scale and the ability to cross-sell a more comprehensive product line to a larger number of clients. In 2007, Aberdeen paid $160 million for Germany's **DEGI**, the property arm of **Dresdner Bank**. The two acquisitions have doubled Aberdeen's property fund business.

There were two other small advisory deals in Europe. In a management buyout, two former executives of **Eurohypo's** real estate investment banking division acquired the German bank's property fund arm (AUM: $700 million) and soon after established a new fund to capitalize on distressed assets. The new company was named **Palatium Investment Management** and is based in London. Eurohypo is a specialist bank for real estate and public finance. In the second deal, **UniCredit** sold its majority interest in Rome-based **Fondi Immobiliari Italiani**, which manages $2.2 billion in property funds. The new consortium of minority owners is led by **Istituto Fondi Immobiliari** and **Lehman Brother Real Estate Partners**.

Real Estate Transactions

	2004	2005	2006	2007	2008
Number of Transactions	3	6	10	17	5
Combined Value ($M)	$51	$221	$1,536	$2,044	$358
Total Seller AUM ($B)	$3.8	$3.7	$31.1	$53.6	$20.8
Average Deal Size ($M)	$17	$37	$154	$120	$72
Average Seller AUM ($B)	$1.3	$0.6	$3.1	$3.2	$4.2

Source: Berkshire Capital Securities LLC

In a transatlantic deal, **Deutsche Bank** acquired a "significant minority interest" in **Rosen Real Estate Securities**, a California-based long-short real estate investment advisor. The acquisition was made through Deutsche's alternative asset management arm, **RREEF**. The companies said they will expand Rosen's long-short real estate investment platform and collaborate on product distribution. "Expanding our alternative investments platform is a key initiative for Deutsche Asset Management's global growth strategy and we will continue to invest as opportunities arise," said Kevin Parker, global head of Deutsche Asset Management." The Deutsche deal followed a minority investment in Rosen made earlier in 2008 by the real estate investment arm of the **Government of Singapore Investment Corporation**, on top of a funding commitment of $300 million.

Hedge Funds / Private Equity

When the markets imploded, hedge funds, it turned out, provided little cover. As a result, the industry itself was left fully exposed, with obscure funds and marquee players equally battered. In October 2008, investors withdrew a record $40 billion from a broad swath of strategies, but 52% came out of firms with more than $5 billion in AUM, according to Hedge Fund Research. Another month of negative performance (minus 6%) trimmed an additional $115 billion off industry AUM. The October numbers came on top of a record $210 billion drop in assets in the third-quarter. Fund of hedge funds, designed to add an additional layer of risk management, performed even worse than hedge funds in the year through October.

The list of casualties last year was long and luminous. **Citadel Investments Group**, led by billionaire Kenneth Griffin, saw the value of its key funds drop by a third during the first 10 months of 2008 and opted to shut its $1 billion fund of funds, as the company made plans to expand into broader financial services. **Citigroup** shuttered **Old Lane Partners** less than a year after it had acquired the hedge fund for $800 million from CEO Vikram Pandit; liquidated its Corporate Special Opportunities fund after it lost 53% of its value in October; and was forced to inject capital into numerous other funds. **Ospraie Management**, a major commodities investor, closed its flagship fund following a 27% drop in August that brought losses for the year above $1 billion. The long list of firms closing funds also included **BlueBay Asset Management, Blue Mountain Capital Management, Carlyle Group, Highland Capital Management** and **Tontine Partners**. A similarly lengthy list of hedge funds began limiting redemptions, including **Gottex Fund Management Holdings** and **GLG Partners**.

Observers believe that when the industry finally regains its footing, anywhere from one-third to half of the estimated 8,000 funds in existence at the start of 2008 may disappear. Although the generally larger and better capitalized publicly traded hedge funds aren't expected to be among them, these firms still had to endure a drubbing. **Fortress Investment Group**, which went public at $18.50 in 2007 and shot to a high of $35 on its opening day, fell below $1 in December, as third-quarter revenues declined 25% and losses hit $57 million. GLG Partners of London reported a 27% drop in AUM between the second and third quarters, along with a net loss of $167 million. The largest publicly traded hedge fund, **Man Group**, remained profitable but saw earnings dive 79% in the half year through September to $507 million.

Amid the plunge, the number of transactions (30) remained consistent with recent trends, and while deal value ($1.4 billion) dropped sharply from the record $8.4 billion in 2007, it was in line with the years 2004 through 2006. The structure of recent years remained in place, with many dealmakers continuing to opt for minority shareholdings rather than outright acquisitions. The investment banks that have been such keen buyers of hedge funds continued to cut deals in the first half before their own travails intruded.

The year was also notable for the opportunistic focus among buyers on targets pursuing credit strategies, as well as the numerous transactions involving buyers and sellers from Asia. In part due to the high concentration of targets in the financial centers of New York (and environs) and London, hedge fund dealmakers remained the least provincial within the asset management industry, with cross border transactions accounting for 35% of total deals, compared with a combined 42% in 2006-2007.

The key deal was an all-New York affair involving **Blackstone Group**'s purchase of **GSO Capital Partners** (AUM: $10 billion), which manages a variety of funds in the leveraged finance marketplace. The transaction, announced at the start of 2008, created one of the largest credit platforms in the alternative investments industry, with $21 billion in AUM. The deal also expanded Blackstone's hedge fund business, which accounted for around 20% of revenues in 2007 and $55 billion in AUM by the third quarter of 2008. "Given the current dislocation in the credit markets, this is an ideal time to create a more powerful, diversified platform from which to grow Blackstone's business," said Blackstone chairman and CEO Stephen Schwarzman. GSO, founded in 2005 by several veterans of **Credit Suisse First Boston**'s alternatives unit, pointed to Blackstone's scale and resources in explaining the decision to sell.

The transaction included an upfront cash-and-shares payment of $635 million combined with incentives that could add another $310 million to the price over five years (in total, 9% of AUM) and wrapped in **Merrill Lynch'**s 20% shareholding in GSO. Like other publicly traded alternative investors, Blackstone's performance was hit hard hit last year, with losses of $509 million in the third quarter and a stock price that finished 2008 at $6.50, down from its June 2007 IPO price of $31. But in its third-quarter conference call, the company said GSO continued to record fund inflows during the year while maintaining relatively good performance, allowing it to boost AUM by 19%.

The two surviving major New York investment banks made four hedge fund investments collectively in the first half, all involving minority shares, with **Goldman Sachs** responsible for three. These included **Claren Road Asset Management** (AUM: $2.7 billion), a 2-year-old New York firm that pursues long-short credit strategies, and two London-based firms: **Capula Investment Management** and **Trafalgar Asset Managers**, both of which managed around $3 billion in assets at the time of deals. Capula is a fixed income arbitrage specialist started up in 2005 by alumni of the British arm of financial giant **Mitsubishi UFJ Financial Group**. In the fourth quarter, Japanese conglomerate **Mitsubishi Corp**. also took a 5% stake in Capula, which has its eye on Asia's institutional marketplace. Trafalgar, founded in 2001, manages 10 funds across a range of strategies, including event and distress situations. Goldman made all three deals through its **Petershill** private equity fund, capitalized with $500 million in 2007 to invest in hedge funds. In the third

quarter of 2008, alternative investments accounted for 18% of Goldman's $863 billion in AUM, with assets up 2% over the year-earlier period.

The other survivor, **Morgan Stanley**, made its seventh hedge fund investment since 2006, taking a minority stake in **Hawker Capital (Cayman) Ltd.**, a 2-year-old London firm specializing in commodities. But the largest hedge fund deal of 2008 by dollar amount was concluded by the investment bank that didn't survive, **Lehman Brothers**. The transaction involved a $1 billion investment last May in start-up **R3 Capital Partners**, a credit-focused hedge fund run by former Lehman executives. The deal was not fully divulged until Lehman's second-quarter financial statement and was promptly criticized for potential conflicts of interest and lack of transparency. One month into its bankruptcy last October, Lehman sold its 45% stake back to R3 for $250 million in cash and a $250 million investment in one of R3's funds (locked up until 2011).

In a transatlantic deal with a couple of components, Man Group of London took a 50% stake in New York credit specialist **Ore Hill Partners** (AUM: $3 billion) for $235 million in cash and shares. The company said Ore Hill would serve as the "platform to develop a leading multi-strategy credit business globally" while also diversifying its product offerings. As part of the deal, Ore Hill agreed to acquire half of Man's European credit manager, **Pemba Credit Advisers** (AUM: $3.7 billion), and invest the majority of net proceeds in a combination of Ore Hill funds and Man shares. By summer, nearly a half-year after the deal, Ore Hill's flagship international fund came under heavy selling pressure, forcing the company to halt redemptions. Man Group also cut a second and smaller deal through its **Man Environmental Capital Opportunities** private equity unit, paying $50 million for 25% of **Nephila Capital** (AUM: $2.4 billion). A 10-year-old firm based in Bermuda, Nephila specializes in weather-related investments that provide "access to uncorrelated sources of returns."

In another deal along the New York-London axis, diversified alternative asset manager **Sciens Capital Management** of the U.S. acquired the "thematic" fund of hedge funds business of **Atlas Capital Associates** to create an international asset manager with $4.5 billion in AUM. Sciens also has a fund of funds business, together with private equity, venture capital and real estate. As the Bernard Madoff scandal shook the hedge fund world, one of the major victims of the alleged Ponzi scheme, **Fairfield Greenwich Group**, saw its proposed merger with Geneva-based alternative investor **Banque Benedict Hentsch** collapse. Connecticut-based Fairfield had more than half its AUM invested with Madoff, amounting to $7.5 billion. BBH reportedly has around $50 million worth of exposure to Madoff funds.

Fairfield also launched a "cooperative venture" with **Sceptre Investment Counsel** of Toronto (AUM: $9.5 billion) designed to provide Sceptre's customers with alternative investments. Founded in 1955, publicly traded Scepter is one of Canada's oldest independent asset managers, primarily serving institutions but with a private client business that was significantly enlarged in 2007 through the acquisition of **Legg Mason**'s Canadian private client arm. The fate of that venture was not clear. **Royal Bank of Canada** took a 10% stake in **O'Shaughnessy Asset Management** of Connecticut, a quantitative firm that exited Bear Stearns early last year. As part of the agreement concluded in 2007 with Bear Stearns, OAM chief James O'Shaughnessy took the $9.5 billion in assets his group managed (by September 2008, AUM had declined to $7 billion). O'Shaughnessy sold his firm to Bear Stearns in 2001, when it had less than $1 billion in AUM, in a bid to kick-start growth. For RBC, the deal cements a 10-year relationship with OAM, which manages 60% of its assets for the Canadian bank. Subsequent to the RBC deal, OAM bought back the 10% stake assumed by **JPMorgan Chase** after its purchase of Bear Stearns.

Hedge Fund Transactions

	2004	2005	2006	2007	2008
Number of Transactions	5	10	29	29	30
Combined Value ($B)	$1.7	$1.4	$1.6	$8.4	$1.4
Total Seller AUM ($B)	$19.8	$36.4	$57.6	$133.0	$46.2
Average Deal Size ($M)	$213	$139	$54	$290	$47
Average Seller AUM ($B)	$4.0	$3.6	$2.0	$4.6	$1.5

Source: Berkshire Capital Securities LLC

In a transatlantic transaction involving a buyer from the Continent, **ING Group** acquired a minority stake in 3-year-old **Lincoln Vale**, a "multi-product" investor in the U.S. and Europe with offices in Boston and London. ING said it will make "substantial capital commitments" to fund launches and expand distribution of Lincoln Vale products. By year-end, Lincoln Vale was reportedly preparing to launch three funds, including one focused on Asia and another on energy. Within the U.S., start-up institutional firm **Duff Capital Advisors** acquired 7-year-old **North Sound Capital**, a global long-short equity manager with $1 billion in AUM, in a deal that brings together two veterans of Julian Robertson's legendary Tiger Management, Philip Duff and Tom McAuley of North Sound. Duff was also a co-founder of hedge fund **FrontPoint Partners**, acquired by Morgan Stanley in 2006.

Since 2006, North Sound has suffered from under-performance and redemptions that more than halved its AUM, but Philip Duff called McAuley "one of the best in the business" and said, "We could not have found a better manager or team to mark the build-out of our investment management platform." As part of the deal, DCA committed to "direct a significant long-term investment to the North Sound strategy." DCA also acquired the majority of the assets and intellectual property of **Azimuth**

The key deal was an all-New York affair involving Blackstone Group's purchase of GSO Capital Partners (AUM: $10 billion), which manages a variety of funds in the leveraged finance marketplace.

Asset Management, including its risk management system. Duff is backed by a $500 million investment from **Lindsay Goldberg**, a New York private equity firm.

In the U.K., Sir Ronald Cohen, co-founder of British private equity giant **Apax Partners** and one of the U.K.'s richest individuals, took minority stakes in two established London hedge funds as he added to his growing portfolio of investments in financial firms. The deals, made within a few days of each other, included **Millennium Global Investments** (AUM: $15 billion), which pursues a mix of hedge fund strategies and also manages fund of funds and private equity investments. Cohen was joined by Lord Jacob Rothschild's investment trust, **RIT Capital Partners**, which increased its existing stake in Millennium. The second deal involved fund of funds manager **International Asset Management** as part of the management buyout from **Fortis**, which inherited the firm through its acquisition of **ABN Amro**'s asset management business (see Cross Border for more on Fortis). Cohen was joined as a minority shareholder in IAM by New York investment bank **Jefferies & Co.**, while IAM managers acquired 72%. In 2006, IAM ended a 17-year run as an independent firm when it was acquired by ABN.

Cohen also invested last year in **Partners Capital Investment Group**, a London- and Boston-based wealth and institutional advisory firm offering "best of breed asset manager selection" across a range of products, including alternatives. Born in Cairo and raised in England, Cohen founded Apax Partners in 1972 and built it into the largest British private equity firm before leaving in 2005. Observers speculate that Cohen may ultimately create a single holding company for his investments that he can then take public.

In a private equity-hedge fund alliance between two London firms, **Cinven Ltd.** took a 50% stake in **Indicus Advisors**, which manages $1.8 billion in assets in European and global credit-related funds. Cinven said the "disruption in the debt markets" had produced an environment in which "a top-class manager can now deliver attractive returns with relatively low risk." There were two small all-European deals involving London targets, including **UniCredit**'s acquisition of a 5% stake in 5-year-old asset manager **NewSmith Capital Partners**. As part of the deal, UniCredit will invest in eight of that firm's long-short funds. In 2007, UniCredit's hedge fund assets rose 27% to $7.3 billion. In a deal involving two fund of hedge funds specialists, **Altex Partners** of Spain acquired London's **Alpha Value Management**, creating a firm with some $400 million in AUM. Subsequently, Altex teamed up with GLG Partners to launch a new fund of funds in Spain.

There were a number of deals involving either Asia-Pacific buyers or targets. In addition to the 5% stake it took in London's Capula Investment Management, **Mitsubishi Corp.** paid $39 million for 20% of Connecticut-based hedge fund **Aladdin Capital Holdings** (AUM: $18 billion). Mitsubishi, Japan's largest trading group, also made an additional $300 million investment in a joint fund of funds with Aladdin. Mitsubishi was already an investor in funds run by Aladdin, a specialist in fixed income and credit-related securities. With an eye on China's growing legions of millionaires, **Bank of China** paid $8.7 million for 30% of **Heritage Fund Management** (AUM: $400 million), a 2-year-old Swiss hedge fund specializing in Japanese and Chinese investments. BoC said it would ultimately raise its stake to 70%. Soon after, BoC opened a wealth management office in Switzerland, headed by the former chief executive of Heritage, Jacques Mechelany.

Marshall Wace, one of the U.K.'s largest hedge funds, formed a joint venture with Hong Kong's **GaveKal Holdings** (AUM: $300 million), in line with a "strategic objective to develop a greater presence in Asia." The firms plan to launch a number of Asian long-short funds through the new company, **Marshall Wace GaveKal Asia**, which they said will combine the "idea-generation, portfolio construction and risk management strengths" of Marshall Wace with GaveKal's regional expertise. **LGT Group**, a wealth and asset management company based in the Principality of Liechtenstein, acquired another Hong Kong firm, 6-year-old fund of hedge funds manager **KGR Capital** (AUM: $350 million). LGT, which had an existing presence in Asia, said the acquisition would expand its product offerings while KGR cited its larger partner's resources and client base. LGT manages some $18 billion in hedge fund and private equity investments. **Macquarie Group** of Australia acquired the hedge funds of **Craton Capital**, a South African asset manager that divested the business to focus on its long-only equity funds. The hedge funds invest primarily in commodities and have about $100 million in AUM; the business was wrapped into Macquarie's asset management unit.

There were several management buyouts of note, in addition to the one at International Asset Management, two of which were supported by private equity firms. A transatlantic buyout saw executives at 10-year-old **Capital Z Investment Partners** purchase the shares owned by **Zurich Financial Services Group**. New York-based Capital Z invests both in hedge funds and the companies managing the funds, having sponsored and taken minority interests in 16 hedge fund managers with a total of $11 billion in assets. Capital Z said it expects to expand its marketing efforts and raise a new investment fund sponsoring hedge fund managers. Private equity firm **Paine & Partners** of San Francisco and New York backed the buyout. Management at **Riverview Alternative Investment Advisors**, supported by private equity firm **Rosemont Investment Partners**, bought out majority owner **Nationwide Mutual Insurance**. Founded in 1999 and based in New Jersey, Riverview is a fund of hedge funds manager with $1.5 billion in AUM; Rosemont focuses on asset management investments. Since 2006, Nationwide has been divesting its asset management business, including **Gartmore Investment Management** in the U.K.

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