Berkshire Capital Securities LLC

2010 | Investment Management Industry Review

About Berkshire Capital

Berkshire Capital is a leading investment bank focused on M&A in the asset management and securities industries. With more completed transactions in this space than any other investment bank, we help clients find successful, long lasting partnerships.

Founded in 1983, Berkshire Capital is an employee-controlled investment bank headquartered in New York with offices in Denver and London. We are recognized as a leading expert in the wealth management, money management, alternatives, real estate and broker/dealer industries. We believe our success as a firm is determined by the success of our clients and the durability of the partnership we help them to structure.

Berkshire Capital Securities LLC

535 Madison Avenue, 19th Floor
New York, NY 10022
212-207-1000

999 Eighteenth Street, Suite 3000
Denver, CO 80202
303-893-2899

Berkshire Capital Securities Ltd.

Cayzer House
30 Buckingham Gate
London SW1E 6NN
+44 (0)20 7828-2828

www.berkcap.com

Lookin' for Dough in All the Right Places

When governments in the U.S. and Europe take a moment to consider their future pension and health care obligations to baby boomers, it doubtless quickens the pulse. In the U.S., the Peterson Foundation, a fiscal watchdog, figures the nation has $56 trillion in unfunded obligations up the road, primarily involving Medicare. Among European Union nations, generous national state pension and health care benefits face similar funding challenges.

In the U.S., states and localities are falling behind on their own promises to boomer public employees, having watched hundreds of billions of dollars in assets disappear in 2008-2009. Wilshire Consulting estimates that the average public pension funding ratio of assets to liabilities dropped 18 points in 2008, to 81%. None of these stratospheric numbers even factor in the stress on public finances from the $1.4 trillion and $290 billion Uncle Sam and John Bull borrowed last year alone to avoid an economic free fall, figures that amounted to about 10% and 12% of their respective GDPs. Greece, Ireland and Spain were hovering around the same level of deficit spending, with Standard & Poor's cutting Greece's bond rating to a rocky "BBB-plus."

In the fiscal year ahead, Washington expects to be another $1.6 trillion in the red while euro zone members as a whole will likely ring up budget deficits equivalent to 7% of GDP, four points above the cap set in Brussels when the economic union was formed. Among nations in the Organization for Economic Co-Operation and Development (OECD), total borrowing is projected at $32 trillion for 2009-2010, and the International Monetary Fund (IMF) figures the world's leading industrialized nations will continue running large deficits through at least 2014, including nearly 7% of GDP in the U.S. and U.K.

Under such circumstances, what's a politician to do? Start looking for money — and fast. That's where the placid but shrewdly independent nation of Switzerland comes in. With a wink and a nod from nations around the world, it has long operated as a haven for wealthy people seeking to shield money from the taxman or the law. No longer. Uncle Sam, John Bull and host of others have come calling from world capitals.

The result: the Swiss blinked, and another offshore private banking center, Lichtenstein, followed. Under pressure from the U.S., last year the Swiss government for first time agreed to provide the names of large numbers of Americans (some 4,400) suspected of hiding money in **UBS** accounts. The British and French negotiated similar deals. In September, Switzerland also completed the last double-taxation treaty required to remove its name from the OECD's list of nations failing to comply with tax-sharing information. In Italy, the government raided the local offices of Swiss banks and talks between the two nations on a tax treaty grew testy. Meanwhile, a tax amnesty led Italians to declare $115 billion in assets held outside the country, though estimates for the total amount run six times as high. Lichtenstein, with 35,000 people and per capita GDP over $100,000, cut a deal with the U.K. to close the accounts of British citizens who do not comply with their government's demand for full disclosure. The small principality has also engaged in similar discussions with Germany.

So it was that in 2009 the worst economic crisis since the Depression continued to play out. It engulfed Europe's lucrative offshore banking industry, remade banks and insurers, helped undo the postwar dominance of Japan's Liberal Democratic Party in national elections, and forced governments to borrow money on an unprecedented scale in peacetime. The financial sector, only recently revered for its ability to generate tax revenues and jobs, instead endured the wrath of once-friendly politicians.

Tepid Recovery

GDP Growth	2008	2009*	2010*
Advanced Economies	0.6%	(3.4%)	**1.3%**
U.S.	0.4	(2.7)	**1.5**
Euro Area	0.7	(4.2)	**0.3**
U.K.	0.7	(4.4)	**0.9**
Japan	(0.7)	(5.4)	**1.7**
Developing Asia	7.6	6.2	**7.3**
China	9.0	8.5	**9.0**
India	7.3	5.4	**6.4**
Global	3.0	(1.1)	**3.1**
World Trade			
Volume (goods & svcs.)	+3.0%	(11.9%)	**+2.5%**

** Projected*

Source: IMF

The British and French governments will apply a 50% tax on banks' bonus payouts. In Germany, where the government demurred on a special tax, top bankers voluntarily adopted a restrictive code recommended by the Group of 20 nations. The U.S. placed pay restrictions

Lost Decade

Major Stock Indices	Close 12/31/09	2009 v. 2008 (%)	Close 12/30/99	2009 v. 1999 (%)
Dow Jones Ind. Avg.	10,428	18.8%	11,497	(9%)
S&P 500	1,115	23.5	1,469	(24)
Nasdaq	2,269	43.9	4,069	(44)
FTSE 100 (U.K.)	5,412	22.1	6,930	(22)
DAX (Germany)	5,957	23.8	6,958	(14)
Nikkei 225	10,546	19.0	18,934	(44)
China (Shanghai "A")	3,437	79.8	N/A	N/A

Dow Jones U.S. Industry Index (% gain/loss 2009 v. 2008)	
Financials	12.8%
Asset Managers	29.2
Banks	(4.6)
Life Insurance	16.7
Investment Services	56.2

Source: Bloomberg

on companies it bailed out and the House in December passed a new and more restrictive financial regulatory scheme. President Barack Obama did his part by referring to "fat-cat bankers on Wall Street" during an interview with the "60 Minutes" news show. The American people aren't in a charitable mood either, with more than half the respondents in a December Bloomberg National Poll saying the major financial firms are only interested in enriching themselves and 64% opining that the bailouts were a bad idea.

Amid the slings and arrows, some titans of finance were clearly taking cues from their PR consultants and lobbyists. **Goldman Sachs**, whose CEO Lloyd Blankfein said last September that public dismay over bank compensation was "understandable and appropriate," acknowledged the prevailing political winds by announcing in December that its top executives would forego cash bonuses in 2009. In a speech that same month at West Point, Jeffrey Immelt, CEO of General Electric — whose large financial arm fell victim to the credit collapse — proclaimed an end to a "difficult generation of business leadership" in which "tough-mindedness, a good trait, was replaced by meanness and greed, both terrible traits."

The crisis in year two also quickened the steady shift in global financial power toward an increasingly confident Asia, and in particular an ascendant if frothy China. Indeed, as America's current account deficit merged with a mushrooming budget deficit, the future of the greenback as the world's reserve currency became a hot topic. China, Washington's main creditor, felt compelled to announce in December that the dollar remained the "main component" of its foreign exchange policy. The Economist wondered aloud in November whether the triple-A rating of Treasury bonds "could be in jeopardy" while Moody's Investors Service spelled out scenarios in December under which the U.S. and the U.K. could both lose that pristine rating.

As the year drew to a close, the American economic picture remained dismal if apparently stable, with an additional 85,000 job losses in December dampening hopes that the labor market might be turning a corner. By year's end, unemployment still hovered above 10%, with estimates of underemployment adding six more points to that number. Michigan, with an official unemployment rate of 15% and an auto industry on government life support, appeared mired in a localized version of the Great Depression. Several states weren't far behind, including once-unassailable California, with a 12.5% unemployment rate and a deeply troubled state government.

The overheated real estate market that helped spawn the financial meltdown remained problematic as well. By the third quarter of 2009, nearly one-quarter of homeowners with mortgages had negative equity, according to real estate intelligence firm First American CoreLogic. Observers were also keeping their eyes peeled on the heavily leveraged commercial real estate sector, where the default rate reached 3.4% in the third quarter, the highest level since 1993, according to Real Estate Econometrics.

Although the U.S. economy began growing again in the third quarter of 2009 after four negative quarters, the annualized GDP gain of 2.8% was weaker than anticipated. The world economy wasn't doing much better, but as in

Although the U.S. economy began growing again in the third quarter of 2009 after four negative quarters, the annualized GDP gain of 2.8% was weaker than anticipated.

the U.S. appeared to be stabilizing. Among the 30 OECD member states, third-quarter GDP figures in aggregate showed the first gain (less than 1%) since the first quarter of 2008. The IMF figures global GDP declined 1.1% last year, with world trade off 12%. The U.S., the world's shopping center, registered a 27% drop in imports in the 10 months through October, according to government figures. For 2010, the IMF projects a 3.1% gain in global GDP, but trade is expected to increase just 2.5%.

The weak economic data notwithstanding, the second half of 2009 did unveil some hopeful developments in the financial sector. As of December, U.S. financial institutions had repaid about two-thirds of the $245 billion in capital they received in fiscal 2009 via the Troubled Asset Relief Program (TARP), including the $10 billion each borrowed by **Goldman Sachs** and **Morgan Stanley**. In December, following a $19.3 billion share offering, **Bank of America** paid off the TARP funds it borrowed ($45 billion), as did **Wells Fargo** ($25 billion) and **Citigroup** ($20 billion).

In Europe, government intervention appears to have been similarly effective, but some companies are paying a price in forced divestitures. For example, London has told **Royal Bank of Scotland** (RBS) it must sell its insurance operation and hundreds of its retail branches and the EU has directed **ING Groep** to split its banking and insurance operations.

Double-Digit Dip

Mergers & Acquisitions, All Industries

Value of Announced Deals ($ billions)	2008	2009	2009 v. 2008 (%)
Worldwide	$2,887	**$2,073**	(28.2%)
U.S	$924	**$720**	(22.0)
Europe	$1,169	**$580**	(50.4)
Asia-Pacific	$435	**$424**	(2.5)
Number of Announced Deals	**2008**	**2009**	
Worldwide	41,045	**38,325**	(6.6%)
U.S.	9,371	**7,585**	(19.1)
Europe	13,863	**13,063**	(5.8)
Asia-Pacific	10,439	**10,383**	(0.5)
2009 M&A (misc)			
Gov't % of investment value = 16.6% (record)			
Private equity investment value = $134B (2006 record = $738B)			
Finance sector % of target value = 20%			

Source: Thomson Reuters

Financial institutions from Asia-Pacific continued flexing their muscles, picking up valuable assets from ailing Western institutions forced to quit asset management in the world's leading growth market.

At the same time, Europe's largest banks are raising private capital to pay back government aid, to avoid taking such aid, or simply to strengthen balance sheets. These include **BNP Paribas, DnB NOR** (Norway's largest bank), **Societe Generale** and **UniCredit.** RBS and another government-salvaged firm, **Lloyds Banking Group**, are also planning to tap investors for capital.

Profits in the financial sector returned, too, in some cases providing an embarrassment of riches. Goldman Sachs followed up a record second quarter by delivering earnings of $3.2 billion in the third quarter, with particularly robust results in its trading operation. Morgan Stanley was in the black in the third quarter for the first time since the third quarter of 2008, with earnings of $757 million. **JPMorgan Chase** saw earnings of $3.6 billion in the third quarter, aided by strong results from its trading desk. **Citigroup** also reported its third straight quarter of meager profits following its near-death experience.

Major European banks such as **Credit Suisse, Deutsche Bank** and **HSBC** also delivered solid earnings.

In 2009, the asset management industry continued a significant if expected realignment, the events as notable for the Who's Who listing of banks and insurers divesting their asset management arms as for the institutions buying. Although dealmaking in the first quarter of 2009

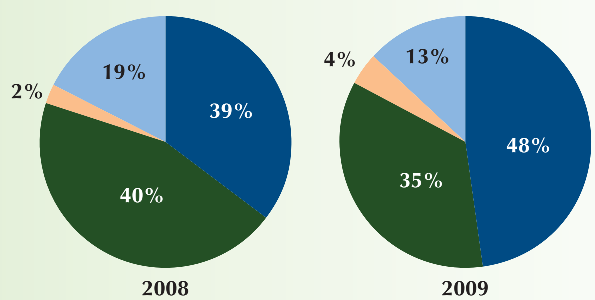
Investment Management Transactions

	2005	2006	2007	2008	2009
Majority Equity	124	150	166	149	**115**
Minority Equity	9	12	26	29	**5**
Management Buyout	6	5	12	21	**15**
Total	**139**	**167**	**204**	**199**	**135**
Total Transaction Value ($B)	$19.3	$47.2	$37.4	$16.3	**$31.7**
Total AUM Changing Hands ($B)	$1,202	$2,340	$1,155	$1,148	**$3,300**

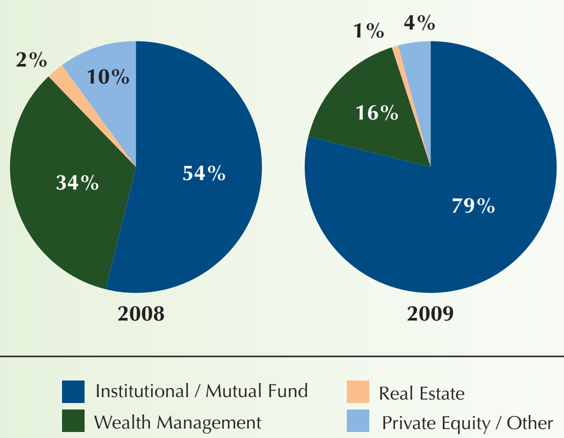
Source: Berkshire Capital Securities LLC

Who's Selling

Number of Transactions by Sector as % of Total



Value of Transactions by Sector as % of Total



Source: Berkshire Capital Securities LLC

tracked the subdued pace of late 2008, activity picked up as the year progressed. In part, that reflected an emerging equilibrium between buyers and sellers on pricing, as concerns about financial collapse ebbed. For banks and insurers, divestitures also reflected the pressure to raise capital and reorganize quickly. But pure asset managers are also feeling the squeeze applied by recent events: A Boston Consulting Group survey of asset managers worldwide showed average operating margins dropped four points between 2007 and 2008 to 34%, the lowest level in five years, but BCG also noted that "the differences among asset managers were substantial."

Not surprisingly, financial institutions from Asia-Pacific continued flexing their muscles, picking up valuable assets from ailing Western institutions forced to quit asset management in the world's leading growth market. Hong Kong's **Pacific Century Group** acquired **AIG**'s external asset management business, paying $500 million for $89 billion in AUM and operations in 32 markets. Singapore's **Oversea-Chinese Banking Corp.** capitalized on the woes of ING, acquiring the Dutch insurer's Asian private banking assets for $1.5 billion. In Japan, **Sumitomo Trust & Banking Co.** paid $800 million for Citigroup's 64% shareholding in **Nikko Asset Management**, Japan's third-largest fund manager.

The largest Australian financial services firms — having avoided the excesses of the subprime investing frenzy and having raised more than $80 billion last year in government-guaranteed debt — took advantage of the problems of a several global banks and insurers to acquire selected assets designed to strengthen operations in their domestic market and Asia. But the largest pure asset management cross border deal involving an Australian buyer took place in the U.S., as Sydney-based **Macquarie Group** paid $428 million to acquire Philadelphia's **Delaware Investments**, owned by TARP-recipient **Lincoln Financial Group**. Macquarie, known for its specialization in infrastructure investments, made several cross border acquisitions last year to expand its asset management, advisory and investment banking businesses.

In total, there were 135 asset management transactions in 2009 valued at $31.7 billion, led by another cross border deal — **BlackRock**'s $13.5 billion acquisition of **Barclays**' asset management business, **Barclays Global Investors**. The deal created the industry's Goliath, with $3.2 trillion in AUM by year's end and particular strength in index funds and exchange traded funds, via Barclay's large **iShares** business. Barclays, which retained a share of the combined business, took in $6.6 billion in cash that allowed it to avoid a government bailout. With its combined heft, BlackRock plans to create an internal trading platform for client transactions.

Who's Buying

	2005	2006	2007	2008	2009
Institutional / Mutual Fund	32	31	30	48	**34**
Wealth Manager	16	24	38	29	**23**
Financial	6	18	22	28	**16**
MBO	6	5	12	21	**15**
Bank	35	39	43	34	**14**
Securities Firm	9	14	16	4	**11**
Trust Company	8	6	4	7	**8**
Real Estate Manager	4	6	14	2	**5**
Insurance Company	7	13	7	7	**2**
Other	16	11	18	19	**7**
Total	**139**	**167**	**204**	**199**	**135**

Source: Berkshire Capital Securities LLC

In total, there were 135 asset management transactions in 2009 valued at $31.7 billion, led by another cross border deal — **BlackRock**'s $13.5 billion acquisition of **Barclays**' asset management business, **Barclays Global Investors**.

There were two billion-dollar transactions in the U.S. that were all-domestic affairs, one involving the much-anticipated sale by **Bank of America** of its **Columbia Management** equity and fixed income business, to **Ameriprise Financial.** It marked the second fund management purchase for Ameriprise in as many years. In the second transaction, **Morgan Stanley** sold its retail asset management business, primarily consisting of the **Van Kampen** fund group, to **Invesco**. Morgan Stanley walked away with a stake in Invesco, on top of cash. Importantly, both deals incorporate distribution agreements, with Ameriprise gaining access to BoA's network and Invesco to the **Morgan Stanley Smith Barney** brokerage unit. Similarly, BlackRock can sell Barclays' iShares through the brokerage arm of BoA/Merrill Lynch (BoA is BlackRock's largest shareholder).

Outside of the BlackRock-Barclays megadeal, there was only one other significant transatlantic deal, involving **Bank of New York Mellon**'s $375 million purchase of Lloyds Banking Group's **Insight Investment Management** unit, the third-largest manager of U.K. pension funds. The largest European transaction was a massive all-French affair, as **Credit Agricole** and Societe Generale extended a brokerage relationship established in 2008 to merge their asset management units and create Europe's third-largest money manager (AUM: $900 billion). Credit Agricole, which took a 75% shareholding, said the transaction was driven by "industrial logic, seeking to combine production efficiency with the power of distribution."

Coming off a year tarnished by the Bernard Madoff scandal, poor returns and declining profitability, the normally busy wealth management sector registered just a small number of deals in the first half of 2009. But that changed in the second half, primarily driven by transactions in Europe, where bailout beneficiary **Commerzbank**, under government pressure to reorganize its business, was particularly active. The German bank divested six private banking units, including its Swiss operation and the venerable **Kleinwort Benson** business in the U.K. The largest wealth transaction in Europe saw **Deutsche Bank** make a $1.9 billion purchase of Luxembourg private bank **Sal. Oppenheim jr. & Cie.** and emerge as the clear market leader in the German market. In the second-largest deal, **Julius Baer** scooped up ING's Swiss private banking business for around $510 million.

* * *

Americans are feeling glum these days. In a survey by Pew Research Center released in December, about half of those interviewed said the country should "mind its own business" — 20 points above the percentage who stated that opinion in 2002 — and 41% said the country plays a less important role as a world leader than it did a decade ago. In a Wall Street Journal/ NBC News poll, two-thirds of respondents indicated they aren't confident their children's lives will be better than their own. Given the challenges the nation faces in a two-front war abroad and on the economic front at home, the responses are not surprising. They also conjure reminders of the malaise that struck the nation in the 1970s, as it confronted the Vietnam War, the Watergate scandal, the oil crisis and double-digit inflation.

In truth, while the news last year was bad, it could have been a lot worse. The government, through decisive action by the Bush and Obama administrations and the Federal Reserve, appears to have averted a potential financial and economic collapse. Salvation came at a price, however, and that's part of what's making Americans nervous. The 2009 federal deficit — $1.4 trillion, or 10% of GDP — combined with deficits that are projected to remain stubbornly high in the years ahead, will place a heavy burden on the economy. Debt service alone will take up an ever larger slice of the federal pie, presumably crowding out other spending.

This is occurring just as the government faces the daunting task of providing Social Security and Medicare benefits to a baby boom generation that has known little privation and large sections of which are not predisposed to embrace sacrifice. In short, the U.S. is in a pickle and the American people know it.

Is something fundamental changing in the U.S. both economically and spiritually? Or will old-fashioned American entrepreneurial flair and optimism reassert itself? The answers to those questions will help determine whether the nation can manage the fiscal and economic challenges ahead. One formidable observer of the American business scene, Warren Buffett, is keeping the faith. "We've gone through the Great Depression, we've gone through world wars, we've gone through Civil War, and we've progressed like no country in the world," he told Business Wire in October. "We've got the right system. It doesn't avoid all the problems but it overcomes all the problems."

Many diversified banks and insurers have been facing their own financial and operational "D-Day," and last year a number of major ones decided it was time to sell off asset managers in whole or part. These included AIG, Bank of America, Barclays, Citigroup, Commerzbank, ING, Lloyds Banking Group and Morgan Stanley. Pure asset managers lacking significant scale and/or a strong niche have their own issues, namely grappling with diminished asset bases and profitability. The challenge of generational transition remains an ever-present issue.

Although dealmaking ebbed toward the end of 2008 and into 2009, in tandem with the financial scare, it picked up steam in the second half of 2009 as markets stabilized and buyers and sellers emerged more agreeable over pricing. Barring the return of a major economic conflagration this year, we expect that the pressures on asset managers will drive buyers and sellers to the bargaining table in significant numbers.

Wealth Management

Following an unusually quiet first half of 2009, the chatter about potential wealth management deals began to pick up by the summer and fall, along with a flurry of significant distress sales in Europe and Asia. In the third quarter, **Royal Bank of Canada** *said it was seeking a U.K. firm as part of its expansion plans.* **Barclays***, having shed its asset management unit, said it could absorb a company the size of the newly independent* **Julius Baer** *private bank. "There could be a major transformational buy for us," Gerard Aquilina, the head of Barclays' international private banking unit, said at the Reuters Global Wealth Management Summit in October.*

Julius Baer, which in July indicated that it wanted to be "an active consolidator through mergers and acquisitions," in October acquired the Swiss private banking assets of **ING Groep**. **Credit Suisse Group** threw its hat into the ring in September, saying it was prepared to acquire firms that provide the right fit. **Reyl & Cies**, a relatively small Swiss private bank with $2.4 billion in AUM, said it was on the lookout for smaller firms that want to add scale. **Bank of New York Mellon** indicated it was also reviewing the landscape for potential deals.

Those sentiments were in sharp contrast to activity in the first half, when only a handful of deals were announced worldwide. Although banks were predictably constrained from buying, wealth managers were also keeping their powder dry in the wake of unprecedented carnage. The most recent Capgemini Merrill Lynch World Wealth Report (for the year 2008) showed that the number of individuals worldwide with at least $1 million in investible assets declined 15% and their collective assets dropped 20%.

Wealth Management Transactions

	2005	2006	2007	2008	2009
Number of Transactions	59	65	87	80	**47**
Combined Value ($B)	$6.2	$7.2	$11.6	$5.6	**$5.2**
Total Seller AUM ($B)	$119	$284	$227	$388	**$246**
Average Deal Size ($M)	$106	$111	$133	$70	**$111**
Average Seller AUM ($B)	$2.0	$4.4	$2.6	$4.9	**$5.2**

Source: Berkshire Capital Securities LLC

No one was spared it seemed, as even Warren Buffet's net worth plunged $25 billion, according to the latest Forbes survey of the world's richest people.

But the Bernard Madoff affair caused an additional chill, as many wealthy clients questioned the due diligence their private bankers were applying to investments, not to mention the value of the overall relationship. As a result, wealth managers spent most of the year focused on securing their client bases, as opposed to expansion via acquisitions. In a report issued in mid-2009, Wealth Bulletin estimated that as many as half of wealthy individuals were ready to change private bankers and as much as $1 trillion in assets shifted managers during 2008. The World Wealth Report says a quarter of investors either withdrew assets from their firms or switched allegiances. "Who Can You Trust?" was the headline in last September's Barron's review of top U.S. wealth managers. "I'm better off assuming that all these people are only out for themselves," one ultra high net worth investor told Barron's in reference to the industry.

Although the turmoil in the traditionally placid industry implies current and future opportunity and consolidation, in 2009 the number of transactions was the lowest in eight years, at 47, compared with an average of 71 during the five-year period through 2008. The value, at $5.2 billion, was less than the $6.5 billion average during the same five years, despite several large deals in Europe and Asia-Pacific. One notably active market was Switzerland, which has endured its own trials, between the pressure for more transparency from the U.S. and Europe on its lucrative and massive offshore private banking industry and the financial and investigatory squeeze on one of the nation's crown jewels, **UBS**.

Although Switzerland's private banking industry has experienced an ongoing series of deals in recent years, the general economic pressures on wealth managers and the particular pressures on the offshore industry are expected to hasten the consolidation trend. Last year, at least, the trend appeared to be favoring domestic companies. In the marquee deal of 2009 within that market, Julius Baer acquired the Swiss private banking business of ING (including subsidiaries in Monaco and Jersey), scooping up $15 billion in AUM for around $510 million, or 2.3% of AUM when adjusted for surplus capital. The deal enhances Julius Baer's position as the third-largest private bank in the Swiss market and the "leading pure private banking group," with $160 billion in AUM. Just a week before the deal, Julius Baer split its private banking and asset management businesses (**GAM Holding**) into separately traded companies on the Swiss Stock Exchange.

Although Switzerland's private banking industry has experienced an ongoing series of deals in recent years, the general economic pressures on wealth managers and the particular pressures on the offshore industry are expected to hasten the consolidation trend.

Julius Baer, which recorded a 12% increase in private banking AUM between the end of 2008 and June of 2009, said the acquisition will be neutral for earnings per share in 2010, but "strongly accretive from 2011 onward, reaching a high single-digit percentage in 2012." ING, which was bailed out by the Dutch government in 2008, also sold its Asian private banking business for $1.5 billion to Singapore's **Oversea-Chinese Banking Corp.** while retaining the business in the Benelux nations (Belgium, Luxembourg and the Netherlands). *(See Cross Border for more information on this deal and three wealth management-related deals announced by **National Australia Bank**.)* In the second quarter, prior to the ING deal, Julius Baer acquired Milan-based **Alpha SIM** (AUM: $560 million) in a bid to strengthen its wealth management business in Italy.

As part of its massive bailout deal with the German government, **Commerzbank** divested numerous private banks in Europe last year, including two in Switzerland. Swiss bank **Vontobel Group** acquired the Commerzbank branded private banking business, adding $4.4 billion in AUM to the $24 billion it already managed. Although pricing was not disclosed, observers speculate the business may have fetched $150 million. Vontobel said the deal will "strengthen its market presence in Switzerland while … broadening its international client base." More than a month after the Commerzbank deal, Vontobel CEO Herbert Scheidt told Reuters the company had the resources to make additional if smaller acquisitions. In the first half of 2009, private banking accounted for 14% of pretax profits at Vontobel, which derives most of its earnings from investment banking.

> The largest deal in the wealth management sector involved **Deutsche Bank**'s agreement to acquire **Sal. Oppenheim Jr. & Cie** for $1.9 billion

LGT Group of Liechtenstein, another offshore market under pressure from European governments, acquired the Dresdner Bank Swiss operation that Commerzbank inherited as part of the larger Dresdner acquisition in 2008. The acquisition nearly doubles LGT's Swiss business, adding $9 billion to the $10 billion in AUM the company already managed in that market (LGT's worldwide AUM rose to $85 billion). The company said the deal strengthens its "foothold in this important financial center considerably" while increasing its penetration in several emerging markets.

Commerzbank made four other divestitures, selling its regional German private bank, **Reuschel & Co.**, to Hamburg-based **Conrad Hinrich Donner Bank**; its Belgian private bank to management; its Austrian private bank to Switzerland's **Zurcher Kantonalbank**; and its venerable U.K. private bank, **Kleinwort Benson**, to Brussels-based private equity firm **RHJ International**. RHJ, which paid $370 million for Kleinwort, said it will use the acquired firm as "an overarching brand" for additional financial services deals, including asset managers. Kleinwort Benson has $34 billion in assets under administration and management. Commerzbank, which received $26 billion in government aid and was saddled with bad investments from its own account as well as from Dresdner Bank, said in the third quarter that it could become profitable again in 2010. There were a couple of small domestic Swiss deals of note: **Norinvest Holdings** acquired **Banque de Patrimoines Privés Genève**, adding $2 billion in AUM to its existing Swiss private banking subsidiary, **Banque Cramer & Cie**; and **Basler Kantonalbank** acquired **AAM Privatbank**, with $3 billion in AUM.

The largest deal in the wealth management sector involved **Deutsche Bank**'s agreement to acquire **Sal. Oppenheim Jr. & Cie** for $1.9 billion, including $430 million for several businesses its plans to divest, such as an asset servicing unit. Deutsche Bank said it retained the option of paying in shares. Based in Luxembourg and founded the same year George Washington became president (1789), Sal. Oppenheim adds $190 billion in AUM to the $245 billion Deutsche Bank already managed and gives the German bank "undisputed leadership" in the German wealth management market, with $130 billion in AUM. In selling out, Sal. Oppenheim was coming off a difficult 2008, when it suffered its first loss since the postwar years, largely due to trading losses of $420 million. Stefan Krause, chief financial officer for Deutsche Bank, said the acquisition "improves our access to the ultra high net worth individual and client segment and family offices by complementing our portfolio with the strong and traditional Sal. Oppenheim brand." Sal. Oppenheim will continue to operate under its name.

In the U.S., where Capgemini Merrill Lynch figures that the number of high net worth individuals declined 19%, the deals were small in size and number. In the largest transaction by AUM, a group of private investors that included management purchased **First Republic Bank** from **Bank of America** for a reported $1 billion. Private equity firms **Colony Capital** and **General Atlantic** together acquired around 50% of the San Francisco-based bank through investment funds they manage. First Republic provides a mix of personal and commercial banking services and manages $15 billion in assets in its wealth management unit. BoA gained First Republic as part of its acquisition of **Merrill Lynch**, which itself acquired the bank in 2007.

> In the largest transaction by AUM, a group of private investors that included management purchased **First Republic Bank** from **Bank of America** for a reported $1 billion.

Ambitious **GenSpring Family Offices** of Palm Beach, Fla., extended its footprint in the West by purchasing multi-family office **Epic Advisors**, its fourth acquisition since 2007. Founded in 1991 and based in Denver, Epic serves clients in 11 Western states. John Elmes, a senior partner at GenSpring, told Financial Advisor magazine that his firm can provide the advantage of scale to multifamily offices grappling with a declining asset base but steady expenses. In a separate deal, GenSpring formed a partnership with Charleston, S.C.-based family investment office **Kiaweh Capital** to launch a family office in that historic city.

Although it serves an elite clientele, GenSpring has not been immune to the ravages of the financial crisis, as assets per client dropped 12% in 2008, according to Financial Advisor. The company, founded in 1989, has $16 billion in assets under advisement, with average investible assets per client of $20 million. GenSpring is an affiliate of **SunTrust Bank**, which has endured its own travails. The Atlanta-based bank has been forced to tap the government's Troubled Asset Relief Program (TARP) for $4.9 billion, raise an additional $1.8 billion in a share offering in the second quarter of 2009, and sharply cut its dividend.

Another TARP beneficiary, **Boston Private Financial Holdings**, made five divestitures that it attributed to a reorganization of its business. Three were management buyouts of wealth managers, with the largest one involving **Sand Hill Advisors**, a Palo Alto, Calif.-based affiliate with $800 million in AUM that Boston Private said overlapped with two other private banks it owns in Northern California, **Bingham, Osborn & Scarborough** and **Borel Private Bank & Trust**. Sand Hill handles clients with at least $2.5 million in investible assets. The buyout was backed by **Fiduciary Network**, which takes a cut of future cash flows in return for a passive, minority investment. "We're happy to have our folks own direct stakes in the business," Sand Hill CEO Jane Williams told the San Francisco Business Times.

In the second deal, Boston Private sold its interest in **Boston Private Value Investors**, again citing "overlap" with other affiliates in New England. BPVI, which renamed itself **Granite Investment Advisors**, is a New Hampshire-based institutional and high net worth manager with $460 million in AUM. The third buyout involved another Boston firm, **RINET Co.**, acquired for $6 million in cash. Boston Private also sold Florida's **Gibraltar Private Bank & Trust** (AUM: $1 billion) to private investors *(see Mutual Funds/ Institutional for information on the fifth deal)*. In addition to TARP funds, Boston Private received a $75 million investment from **Carlyle Group** in 2008.

In another management buyout from a larger parent, the principals at **WealthTrust LLC** of Charlotte, N.C., acquired their firm from Nashville-based **WealthTrust Advisors**, whose holdings include 11 other affiliates. WealthTrust LLC, founded in 1989 as James M. Myers Research and acquired in 2004 by WealthTrust Advisors, has $300 million in AUM. The owners, who rebranded their company **Kingfisher Capital**, told Private Asset Management that in order to "pursue the ideas we were generating internally, it was better for us to become independent again, with no oversight from an outside party." After an absence of a year and a half, **Focus Financial Partners** stepped back into the marketplace in the fourth quarter to make two investments in the New York metropolitan area, in **Joel Isaacson & Co.** and **LLBH Private Wealth Management**. Four-year-old Focus, which received a total of $50 million in capital in November from original investor **Summit Partners** and a new investor, **Polaris Venture Partners**, has a portfolio of 20 affiliates.

There were several small deals involving local players adding scale. In Ohio, **Johnson Investment Counsel** acquired **Mead, Adam & Co.** (AUM: $350 million), a sale driven by succession planning issues at Mead, Adam, a 39-year-old firm based in Dayton. The acquisition expands the existing capabilities of Cincinnati-based Johnson in Columbus and Dayton. Johnson, which received financing from private investors for its first acquisition in 20 years, has $4 billion in AUM, including nine mutual funds it operates under its corporate name. "The breadth of our firm allows us to deliver additional comprehensive wealth management services to Mead, Adam clients," said Tim Johnson, president of Johnson Investment Counsel.

Boston Private Financial Holdings, made five divestitures that it attributed to a reorganization of its business. Three were management buyouts of wealth managers, with the largest one involving **Sand Hill Advisors**.

In Pittsburgh, **BPU Investment Management** added $100 million in AUM to the $650 million it already managed by acquiring **Paragon Wealth Management**. In the Kansas City area, **Barber Financial Group** bulked up by acquiring **Kasper Steck Wealth Management**, creating a company with $700 million in AUM. "We aim to broaden our capabilities and geographic reach by combining our services," said Barber Financial, which in 2008 began a regionally syndicated financial advice radio program.

In San Antonio, **TTC Holdings** acquired **Austin, Calvert & Flavin Management Co.** from parent **Waddell & Reed Investment**, a deal that merges the fixed income capabilities of TTC with Austin's equity focus. Austin, founded in 1981 and acquired by Waddell & Reed in 1999, will continue to operate under its name as a subsidiary of TTC. Waddell & Reed said the deal "provides the opportunity for both firms to effectively pursue core business initiatives." In its 2008 annual report, Waddell & Reed noted that its institutional asset flows (including the high net worth business) have been "negatively impacted by underperformance" at Austin in the last several years. Austin manages $640 million in assets for clients in seven states. TTC manages $1.5 billion in assets through a subsidiary, **The Trust Company**.

Salient Wealth Management and **Friedman & Associates**, two established firms in the San Francisco area, merged to form **Salient Friedman Wealth Management**, with more than $600 million in AUM and "deeper capabilities and access to resources." In a second merger in Northern California, **Burr Pilger Mayer** joined forces with **Vista Wealth Management** to create a firm with more than $500 million in client assets. The companies said the new firm, **Vista Wealth Management**, provides clients with "added depth and expertise."

Institutional/Mutual Funds

***Pimco** has built a reputation as one of the savviest investment firms in the U.S., its profile enhanced by witty and insightful commentaries from its media-friendly managing director, Bill Gross. Over the last couple of years, with investors fleeing equity funds, the company's specialization in bonds and the performance of those funds have helped burnish the corporate image.*

Pimco's actively managed funds netted more money than any of its competitors in stocks or bonds in 2008, according to Strategic Insight, and by the third quarter of 2009 the company had $940 billion in AUM (its flagship Total Return fund accounted for $186 billion). In the first three quarters of 2009, inflows for bond funds in the U.S. as a whole were a record $255 billion, compared with just $3.8 billion for stock funds, according to Morningstar.

So when Pimco acknowledged in the fall of 2009 that it was planning to expand into active equities, it created a buzz among industry observers and players. Although Motley Fool wondered whether a Pimco stock fund might be "something to avoid" and merely "a cynical grab for assets," it also allowed that Pimco "might be taking a smarter route to expanding its offerings — by lifting out an entire equity management team from another fund shop."

Will Pimco's counterintuitive bet on actively managed equities prove as prescient as the firm's early warnings about the overheated property market? Given the current state of active equity fund management, the industry must be hoping so. Equity mutual funds of all types, left reeling from the 2008 meltdown that eviscerated nearly $2.8 trillion in assets in the U.S., remain under considerable pressure. In a continuation of the long-term trend, the fees and expenses paid by investors in equity funds fell another two basis points from 2007 to 2008, to 99 basis points, compared with 122 basis points in 2003, according to the Investment Company Institute. The U.S. Supreme Court could add more pressure to mutual fund fees, depending on its decision in that matter in Jones v. Harris Associates, a case the court heard in November. A federal court has already ruled in favor of investors in a similar case (Gallus et al. v. Ameriprise Financial).

Events in 2008 also led retail and institutional investors to question the value of active management. A survey by Greenwich Associates last year indicated that one in five institutional investors moved assets from active to passive products, compared with 4% in the third and fourth quarters of 2008, although the researcher notes the trend may prove fleeting. In the first half of 2009, Pensions & Investments reported that index fund assets worldwide among the 48 asset managers it surveyed rose 11%. In the U.S., index funds accounted for 13% of all equity funds in 2008, up from 11.5% in 2007. Low-cost exchange traded funds (ETFs) in the U.S., which had record inflows of $176 billion in 2008 (though overall assets declined), continued their gains last year, reaching $738 billion in AUM by November 2009.

That tilt toward passive investing played into the largest deal of 2009 and in the history of the asset management industry, as **BlackRock** acquired **Barclays**' largely index-driven asset management business for an initial price of $13.5 billion, a value that rose to $15.2 billion by the time the deal closed in December, owing to the increase in BlackRock shares. The BlackRock-Barclays deal, including the British bank's coveted **iShares** ETF business, was one among many significant transactions involving mutual fund and institutional businesses, as banks and insurers in particular sought to reorganize operations and secure capital by selling off those operations.

In total, there were 65 transactions valued at $25.1 billion involving institutional and mutual fund managers in 2009, compared with 77 worth $8.7 billion in a very active 2008. Significantly, dealmakers in these two sectors were busy in the first half of 2009, securing more than three-dozen transactions during a period when even the generally robust wealth sector could muster only a handful of deals.

In acquiring **Barclays Global Investors**, BlackRock became by far the world's largest asset manager, doubling its AUM to an astonishing $2.7 trillion, about twice the size of its nearest competitors.

In acquiring **Barclays Global Investors**, BlackRock became by far the world's largest asset manager, doubling its AUM to an astonishing $2.7 trillion, about twice the size of its nearest competitors. (By the time the deal closed in December, BlackRock said AUM had increased to $3.2 trillion.) This includes taking command of the dominant ETF business in the U.S., with some $300 billion in AUM. The combined firm, operating in 24 countries, will retain BlackRock's institutional bias (80% of AUM), though Barclays adds a significant retail component. The iShares business will account for close to 60% of the combined firm's $526 billion in retail AUM, with the ETF industry projected to register annual growth as high as 25% in the next three to five years, according to Bernstein Research. "The combination of active and passive investment products will be unsurpassed, and will enhance our ability to offer comprehensive solutions and tailored portfolios to institutional and retail clients," said Laurence Fink, chairman and CEO of BlackRock.

Institutional / Mutual Fund Transactions

	2005	2006	2007	2008	2009
Number of Transactions	56	49	62	77	**65**
Combined Value ($B)	$7.9	$34.7	$15.1	$8.7	**$25.1**
Total Seller AUM ($B)	$836	$1,920	$718	$683	**$3,011**
Average Deal Size ($M)	$140	$708	$244	$113	**$386**
Average Seller AUM ($B)	$14.9	$39.2	$11.6	$8.9	**$46.3**

Source: Berkshire Capital Securities LLC

The acquisition comes just three years after BlackRock acquired **Merrill Lynch**'s asset management business for $9.8 billion. Merrill, as well as parent **Bank of America**, whose share in BlackRock dropped from nearly half to 34% after the BGI deal, represent important distribution channels for iShares funds. Barclays, which retained its private banking business, received $6.6 billion in much-needed cash and a near-20% shareholding in the combined firm, **BlackRock Global Investors.** Founded in 1988, BlackRock has seen its AUM skyrocket since 2000, when it managed a little over $200 billion. In the first quarter, private equity firm **CVC Capital Partners** agreed to pay $4.4 billion for the iShares business; it received a break-up fee of $175 million as a result of the BlackRock deal.

There were several other cross border deals of note involving divestitures by banks or insurers, including **Pacific Century Group**'s acquisition of a portion of **AIG**'s asset management business, a $500 million deal that gives the Hong Kong-based investment firm $89 billion in AUM and operations in 32 markets. **Macquarie Group** of Australia paid $428 million for Philadelphia's **Delaware Management**, owned by **Lincoln Financial Group**, adding $125 billion in institutional and retail AUM and securing a foothold in the U.S. **Bank of New York Mellon** paid $375 million for **Insight Investment Management**, owned by **Lloyds Banking Group**, a deal that netted BNY Mellon $130 billion in AUM. *(See Cross Border for more information on these transactions.)*

In the U.S., two beneficiaries of Washington's Troubled Asset Relief Program (TARP) were the sellers in the largest all-domestic deals in the sector. The larger of the two was the $1.5 billion cash-and-share sale by **Morgan Stanley** of its retail asset management business to **Invesco.** The transaction, consisting mainly of Morgan Stanley's **Van Kampen** funds, adds $119 billion in AUM to the $416 billion Invesco already managed and makes the Atlanta-based firm a top-10 U.S. fund manager, with $122 billion in funds in that market. The addition of the Morgan Stanley assets marks a slight shift in focus for Invesco's business, with the proportion of retail AUM climbing seven points to 56%.

Martin Flanagan, president and CEO of the perennially acquisitive Invesco, said the deal will "enhance" his firm's "ability to deliver meaningful solutions" to its clients and "better position [it] for long-term success." Invesco, which manages the **AIM** and **PowerShares** funds among others, also reached a distribution agreement with the **Morgan Stanley Smith Barney** brokerage unit. "I'm a believer that you need to be big enough" to remain relevant, Flanagan told Barron's. Morgan Stanley, which received $500 million in cash and a 9.4% shareholding in Invesco worth $1 billion, retained its institutional asset management business (AUM: $267 billion) while noting that the transaction terms provide it with a stake in a "formidable new contender in the retail space."

The second all-U.S. megadeal involved Bank of America's much-anticipated sale of **Columbia Management**'s equity and fixed income business, to **Ameriprise Financial**, for between $900 million and $1.2 billion in cash (based on net assets flows at Columbia prior to closing). Ameriprise gains $165 billion in AUM (56% in equity funds), bringing its total AUM to $400 billion and making it the eighth-largest manager of long-term funds in the U.S. The deal adds the **Columbia Wanger** and **Acorn** funds to Ameriprise's **RiverSource** (U.S.) and **Threadneedle** (U.K.) brands.

Jim Cracchiolo, chairman and CEO of Ameriprise, said the acquisition, priced at seven times run-rate EBITDA, will be accretive to earnings in the first year and provides the "scale and the investment performance record for us to serve a broad range of investors." The two companies also reached a five-year distribution deal agreement akin to the one between Invesco and Morgan Stanley that provides Ameriprise with access to BoA's network, including Merrill

Lynch and U.S. Trust. In June 2009, Ameriprise completed a $900 million share offering that helped pay for the acquisition. In 2008, Ameriprise paid $440 million for mutual fund and hedge fund manager **J & W Seligman**.

Additional domestic deals dropped off considerably in size. One of the larger ones was **Aquiline Capital Partners**' purchase of Connecticut's **Conning & Co.,** a fixed income institutional firm with $70 billion in AUM and an insurance clientele. Conning parent **Swiss Reinsurance Co.**, which has suffered major losses on its investment portfolio, sold the firm as part of a reorganization but said it will

There were a number of noteworthy transactions involving sellers with AUM in the $2 billion to $5 billion range.

"maintain a strong relationship with Conning as a recipient of its services." Started up in 2005 and based in New York, Aquiline raised an inaugural fund of $1.1 billion in 2007 to invest in financial services firms. Last year, Aquiline made a second investment in **HedgeServ Holding LP**, a hedge fund and fund of funds administrator. The company is controlled by Aquiline Holdings, the investment vehicle of Jeffrey Greenberg, former CEO of Marsh & McLennan Cos.

Boston Private Financial Holdings sold five of its affiliates last year as it sought to repair a balance sheet weakened by the financial crisis and reorganize its business. The largest involved the management buyout of institutional firm **Westfield Capital Management** (AUM: $11 billion), a Boston-based growth-equity investor that paid $59 million to Boston Private, as well as a 12.5% share of revenues over eight years. Boston Private said Westfield's institutional business "diverges" from its "core strategy of providing wealth management services." *(See Wealth Management for more on the Boston Private deals.)* **Guggenheim Partners** acquired **Claymore Group** (AUM: $13 billion), gaining entry to both the ETF and retail markets. Claymore, founded in 2001, has created a line of innovative ETF products, although some that were particularly narrow in scope (the Sudan and Global Vaccine funds) were forced to close. "This transaction will enhance our retail distribution, product development and marketing prowess, especially among financial advisors," said Mark Walter, CEO of Guggenheim.

There were a number of noteworthy transactions involving sellers with AUM in the $2 billion to $5 billion range. Following a year on the sidelines, **Affiliated Managers Group** completed a deal for global equity manager **Harding Loevner** (AUM: $5 billion) first announced in mid-2008 and later postponed due to market conditions. AMG took a 60% stake in the New Jersey-based firm, with management retaining the rest, in line with AMG's affiliate structure. Harding Loevner said the deal allows it to retain its independence and culture while "providing a framework" for the eventual transfer of equity to "the next generation of managers."

In a transaction that resulted in the merger of two Boston-based institutional firms, **City National Corp.** acquired a majority stake in **Lee Munder Capital Group** (AUM: $3 billion) and combined that company with **Independence Investments**, purchased by CNC in 2006. CNC said the enlarged company, operating under the Lee Munder name and with $4 billion in AUM, "will strengthen and diversify the institutional asset management capabilities available to our clients." Lee Munder, an equities specialist, is one of seven investment advisory affiliates of CNC's Chicago-based asset management holding company, **Convergent Capital Management**. Lee Munder retains a minority shareholding in his 10-year-old firm. In a similar transaction designed to enhance local capabilities, management at Louisville-based **Todd Investments Advisors** bought out their company from parent **Fort Washington Investment Advisors** of Cincinnati and then merged with a smaller local institutional manager, **Veredus Asset Management**. The combined firm, **Todd-Veredus Asset Management**, has $3 billion in AUM and combines complementary value and growth strategies. In 2008, Veredus management repurchased the 50% ownership interest of **Fortis**.

UniCredit of Italy acquired 11 **RMK Select Funds** with a total of $2 billion in AUM and wrapped them into existing funds run by UniCredit's U.S. asset manager, **Pioneer Investment Management**. The deal was transacted with RMK owner **Morgan Keegan & Co.**, the brokerage arm of Alabama-based bank **Regions Financial Corporation**. In 2008, Regions transferred management of several troubled Morgan Keegan bond funds that had begun to perform poorly.

In Kansas City, **Tortoise Capital Advisors** joined with **Mariner Holdings** to buy out the interest in Tortoise owned by two private investment firms. Tortoise is a specialist in master limited partnerships in the energy sector (AUM: $2 billion) and manages several publicly traded closed-end funds as well as separately managed accounts. Mariner, which took a majority interest in Tortoise, was founded in 2006 by alumni of **A.G. Edwards** and has $1 billion in AUM. The company said the deal "fits our long-term strategy to create a world-class asset management business."

A second deal involving a niche investment firm saw **Brown Advisory** of Baltimore acquire Boston's **Winslow Management**, an established "green" technology investor with $320 million in AUM in two mutual funds. Referring to the flow of capital to green industries and companies, Michael Hankin, CEO of Brown Advisory, said Winslow gives his company a "distinct advantage in understanding" who "will be successful and worth investing in." In a continuation of a 2008 deal for **Clover Capital Management**, **Federated Investors** purchased two equity mutual funds from **Touchstone Advisors** that had been subadvised by Clover. The funds, with $223 million in AUM, will be wrapped into similar Federated Clover products. The transaction is in line with Federated's tack-on acquisition strategy.

The ongoing consolidation trend in Canada's generally healthy financial services industry continued into 2009, with several small deals. **Manulife Financial Corp.** acquired **AIC Ltd.**'s Canadian retail fund business, removing another independent fund manager from the domestic industry. A high-flyer during the 1990s, AIC's fund business came down to earth with the technology collapse, with AUM declining from $15 billion in 2002 to $3.5 billion last year. AIC is the diversified investment holding company of billionaire Michael Lee-Chin, a native of Jamaica. Manulife, Canada's largest insurer, said the acquisition "creates significant scale and presence" for its retail funds, which increased to $13 billion in AUM. In a banking and insurance deal with an asset management component, **Co-operators Life Insurance Co.** and **Central 1 Credit Union** teamed up to pay $215 million for **CUMIS Group Limited**. CUMIS provides retirement plan and wealth management products and services, in addition to its primary insurance business. In 2008, Co-operators paid more than $300 million to acquire Montreal-based **Addenda Capital**, a fixed income institutional shop.

In Europe, the most significant transaction was a massive all-French affair, as **Credit Agricole** and **Societe Generale** followed up on a brokerage agreement reached in 2008 to merge their asset management units and create Europe's third-largest money manager (AUM: $900 billion). The deal excludes SocGen's alternative businesses. The banks said the combined firm, subsequently named **Amundi**, will provide a comprehensive portfolio of investments for retail and institutional investors and enjoy economies of scale. "The agreement we have signed with Societe Generale is based on industrial logic, seeking to combine production efficiency with the power of distribution," said Georges Pauget, chief executive of Credit Agricole, which gains a 75% shareholding, roughly in line with its proportion of the assets.

The new firm leans toward fixed income products, representing two-thirds of AUM, and retail investors (70% of AUM). Although the lion's share of Amundi's assets are in Europe, the new company will have a presence in more than 30 markets, including the U.S. through the transfer of a portion of SocGen's minority shareholding in **TCW**, an institutional manager with $108 billion in AUM. About 40% of institutional assets are managed for clients outside France. The two banks have a "lock-up" agreement on their shareholdings for at least five years, but said Amundi "could consider" a public listing during that period. Late in the year, TCW acquired fixed income specialist **Metropolitan West Asset Management**, a Los Angeles-based company with $30 billion in AUM. The transaction coincided with the dismissal of TCW chief investment officer Jeffrey Gundlach, who oversaw much of the company's fixed income portfolio but was widely rumored to be considering a move elsewhere. Analysts view the deal as a defensive move by TCW to protect its flank by acquiring a high-quality fixed income competitor.

In the U.K., **Henderson Group** paid $160 million in cash and shares for troubled **New Star Asset Management**. Founded in 2000 by John Duffield, the colorful former chief of **Jupiter Asset Management**, publicly traded New Star enjoyed fast growth and a high profile, having amassed $35 billion in AUM by 2007. But the company borrowed heavily that year to make a cash payout to shareholders, including management, a decision that caused a liquidity crunch when the financial crisis struck and redemptions rose. By the end of 2008, creditors had assumed control of the London-based company, with AUM having fallen to $15 billion by the time the deal was announced in January 2009. For Henderson, the acquisition provides greater scale in the domestic market and brings total AUM to $90 billion. Several months after the acquisition, new Henderson chief executive Andrew Formica told the Financial Times the company planned to build its U.K. business organically but "the New Star opportunity enabled us to accelerate our plan and it was too good an opportunity to miss." For his part, Duffield was making plans to start a family office, initially charged with managing his sizable personal wealth.

Cross Border

Asian financial institutions continued to capitalize on the travails of Western banks and insurers last year in a further sign of the shifting balance of global financial confidence and power. Investors from China, Japan and Singapore made a series of large and opportunistic acquisitions to expand internationally and domestically at the expense of retrenching Western players. Within the broader Asia-Pacific region, Australian banks, with minimal exposure to subprime investments and solid balance sheets bolstered by tens of billions of additional shareholder dollars, joined in the mix.

Stock market valuations underscored the prevailing winds: In the fourth quarter of 2009, Chinese banks accounted for three of the top five banks in the world by market capitalization. **HSBC**, domiciled in London since 1993 but historically dependent on Asia for a large proportion of its profits, filled out an additional spot among the top five, with **JPMorgan Chase** the lone U.S. entry. (HSBC announced last September that its CEO would be based in Hong Kong as of February 2010.) China has also been the hottest market for initial public offerings, playing host to five of the 10 largest IPOs last year, including the $3.9 billion offering for **China Minsheng Bank** in November.

The emergence of China as a financial center was highlighted by the government's announcement in September that it would for the first time issue to foreign investors nearly $900 million in yuan-denominated bonds, as the nation prepares to establish a global currency alongside the dollar, euro and yen. China's coffers, meanwhile, were bulging with $2.3 trillion in foreign exchange reserves by the end of the third quarter of 2009.

Cross Border Transactions

U.S. - International	2005	2006	2007	2008	2009
Number of Deals	13	24	19	22	**8**
Value ($B)	$1.7	$8.3	$5.6	$0.9	**$1.4**
International - International	**2005**	**2006**	**2007**	**2008**	**2009**
Number of Deals	23	24	44	38	**13**
Value ($B)	$7.8	$1.4	$6.1	$3.3	**$3.2**
Total	**2005**	**2006**	**2007**	**2008**	**2009**
Number of Deals	36	48	63	60	**21**
Value ($B)	$9.5	$9.7	$11.7	$4.3	**$4.6**

Source: Berkshire Capital Securities LLC

Shanghai-based **Industrial and Commercial Bank of China**, the No. 1 global bank by market capitalization and deposits, has made several external investments since 2006, including banks in Canada and Thailand last year. In China, ICBC also boosted to 75% its share of a 5-year-old fund management joint venture with **Credit Suisse**, paying $40 million for the 20% shareholding of China Ocean Shipping. Credit Suisse retained a 25% share in **ICBC Credit Suisse Asset Management**. Researcher Z-Ben Advisors of Shanghai projects a tripling in size of China's fund industry by 2014 to more than $1 trillion in AUM, driven in part by new products such as exchange traded funds (ETFs) and real estate investment trusts (REITs).

Among China-based buyers, the largest asset management deal in 2009 involved a known target — **AIG**'s asset management business (not including its in-house operation) — but an unexpected suitor, Hong Kong's **Bridge Partners**. Bridge will pay $300 million in cash and another $200 million in carried interest and incentives for a business with $89 billion in AUM and operations in 32 markets. Bridge is a subsidiary of **Pacific Century Group**, the 17-year-old investment vehicle of Richard Li, the youngest son of Li Ka-shing, one of the legendary tycoons of Hong Kong's rags-to-riches postwar era. Pacific Century's holdings are focused on property, communications and infrastructure, though it has in the past owned a life insurance company with an asset management subsidiary. Pacific Century said it would capitalize on its Asian infrastructure to develop the business. Other interested buyers from the region included **Macquarie Group** of Australia and **Religare Enterprises** of India, which made a joint bid, and **Temasek Holdings**, Singapore's powerful state investment company.

In a second major distress sale in Asia, **Citigroup** continued to retrench and raise capital by selling its 64% shareholding in **Nikko Asset Management** to **Sumitomo Trust & Banking Co.** for $800 million (the total value, including the interest of other shareholders, was $1.2 billion). The transaction, announced in July, followed on the heels of Citi's divestitures of its Japanese brokerage (**Nikko Cordial**) and trust bank (**NikkoCiti Trust**). Japan's third-largest fund manager, NikkoAM added $100 billion in AUM and a retail clientele to the $290 billion Sumitomo already managed, primarily for institutions, pulling the company alongside **Mitsubishi UFJ Financial Group** as Japan's leading asset manager. Its various divestitures in Japan notwithstanding, Citi said it remains committed to building its "core businesses" in this "very important market." At the same time, the sale of NikkoAM means abandoning a retail asset management market that is expected to be one of the bright spots in financial services in Japan in the years ahead. About half of Japan's household assets are held in cash and deposits and just 3% are in mutual funds, according to McKinsey & Company, leaving ample room for growth.

Singapore's **Oversea-Chinese Banking Corp.** accounted for the third key deal involving an Asian buyer and a distressed Western seller, as it paid $1.5 billion for **ING Groep**'s Asian private banking assets, including surplus capital of approximately $550 million. The deal marked the third divestiture of private banking assets made last year by the Dutch insurer, which retained its wealth businesses in Benelux and Central and Eastern Europe. For OCBC, the "transformational" acquisition more than triples its private client AUM to $23 billion, adds 5,000 clients, and creates a top-10 Asian private banker. It also adds a business whose AUM has been growing at a compound annual rate of 24% since 2002, including net inflows of $1.8 billion in 2008.

The pricing, at 5.8% of AUM (adjusted for surplus capital), is more than double the valuation paid by **Julius Baer** for ING's Swiss private bank *(see Wealth Management)*, reflecting both the robust growth of the Asian business and the prospects for the region's wealth market, along with the stress on Switzerland's offshore private banking industry. The 2009 Capgemini Merrill Lynch World Wealth Report projects that Asia-Pacific will surpass North America as the largest regional wealth market by 2013. In 2008, China passed the U.K. to become the world's fourth-largest individual market. ING has been selling assets as it seeks to repay the $15 billion bailout it received from the Dutch government.

Australian banks were particularly active last year buying up local subsidiaries of troubled international financial services firms to enhance their capabilities domestically and regionally. But the major pure asset management deal had a U.S. connection, as Macquarie Group paid $428 million in cash for Philadelphia's **Delaware Investments** (AUM: $125 billion), owned by **Lincoln Financial Group**, a recipient of $950 million in funds from the Troubled Asset Relief Program (TARP). At the time of the deal, Macquarie had $3.6 billion in capital above minimum regulatory requirements. The purchase provides Macquarie with a foothold in the U.S. and brings its total AUM to $340 billion, nearly four times the level in 2005. The company said the deal "is a demonstration to our clients of the ongoing commitment we have to developing a global asset management capability with significant scale, product depth, research and investment capacity." Founded in 1929, Delaware has a mix of retail and institutional customers and provides a range of fixed income and equity investments.

Cross Border Transactions by Domicile and Type

2008 — Buyer: / Seller:	U.S. / International	International / U.S.	International / International	Total
Wealth Management	5	2	21	**28**
Institutional / Mutual Fund	3	4	9	**16**
Other	5	3	8	**16**
Total	**13**	**9**	**38**	**60**
2009 — Buyer: / Seller:	**U.S. / International**	**International / U.S.**	**International / International**	**Total**
Wealth Management	0	1	5	**6**
Institutional / Mutual Fund	2	2	6	**10**
Other	3	0	2	**5**
Total	**5**	**3**	**13**	**21**

Source: Berkshire Capital Securities LLC

Australian banks were particularly active last year buying up local subsidiaries of troubled international financial services firms to enhance their capabilities domestically and regionally.

Macquarie made a series of other cross border deals last year for asset managers, advisors and investment banks, including four in North America. In addition to Delaware, these included Toronto-based **Blackmont Capital**, an advisory firm and investment bank with $7 billion in asset under administration that helped Macquarie expand its Canadian business. Macquarie paid $90 million for Blackmont, owned by Canadian mutual fund giant **CI Financial**. Macquarie was also active last year in China, where it took a near-20% stake in a trust company, **Sino-Australian International Trust**, and launched a joint venture with **China Everbright** to establish two Chinese infrastructure funds.

Australia and New Zealand Banking Group made two opportunistic acquisitions in the third quarter picking up the local assets of ING and another tottering giant, **Royal Bank of Scotland**. Both deals are consistent with ANZ's goal of building a "super-regional" bank and expanding its wealth management business. Said Mike Smith, CEO of ANZ: "We've been able to take advantage of the global financial crisis and ANZ's strong balance sheet to advance our strategy." The $1.6 billion ING deal involved the Dutch firm's 51% interest in the wealth management and life insurance joint venture the companies formed in 2002, which has $42 billion in AUM in Australia and New Zealand. Although the $550 million RBS transaction did not include an asset management business, it did add 2 million customers from the Scottish bank's retail and commercial banking operations in numerous developed and emerging markets of Asia. In November, Smith told Reuters the bank was continuing to look at wealth management "opportunities across Asia."

In line with the strategic direction outlined during the first quarter of 2009 by new CEO Cameron Clyne, **National Australia Bank** made two acquisitions expanding its wealth management business within Australia-New Zealand and announced the third and potentially largest one at the end of the year. The larger of the two completed deals involved the $760 million purchase of the Australian insurance and wealth management businesses of British insurer **Aviva PLC**, with $12 billion in assets under advice.

Aviva, which retained its retirement-focused Australian asset management business, said it would concentrate

> Macquarie Group paid $428 million in cash for Philadelphia's **Delaware Investments** (AUM: $125 billion), owned by **Lincoln Financial Group**.

its investments in the region in other insurance markets promising greater returns. In a second deal done just a month later in July, NAB paid $90 million for 80% of the wealth management unit of **Goldman Sachs JBWere**, with $9 billion in AUM in Australia and New Zealand. The deal includes revenue-based incentives over a three-year period. Goldman will retain the remaining 20% in the firm, which NAB rebranded **JBWere** and wrapped into its **MLC** insurance and wealth division.

In a small cross border deal, NAB acquired Hong Kong's **Calibre Asset Management** in a bid to provide additional services to its private clients in that market. But NAB's largest potential transaction involves the proposed $4.2 billion purchase of the Australian and New Zealand businesses of **AXA Asia Pacific**. In Australia, the deal would add $25 billion in AUM to the $66 billion NAB already manages and would make the bank the nation's leading wealth manager and insurer (a set of circumstances that has also placed the proposal on the radar screen of Australian regulators). AXA Asia Pacific, 54%-owned by **AXA** of France, is listed on the Australian Stock Exchange. NAB's offer trumps an earlier joint bid made by AXA and Australian wealth manager **AMP** for the entire AXA Asia Pacific business, with AXA taking the Asian insurance business. The success of NAB's offer is contingent on the approval of AXA, including its willingness to acquire the Asian business.

In an additional deal Down Under, Melbourne-based **IOOF Holdings** paid $32 million for the Australian unit of another multinational, London-based **Old Mutual Group**, consisting of wrap platform and retirement businesses, with $7.5 billion in assets under management and administration. The deal follows the 2008 merger between IOOF and the larger **Australian Wealth Management** that created an asset manager with more than $80 billion in assets under management and administration. Analysts expect Australian companies to continue responding to the government's pressure on financial advisory fees, and profitability, by adding scale.

Elsewhere in Asia, Credit Suisse sold back to **Woori Finance Holdings** its 30% interest in the South Korean asset management joint venture they formed in 2006. At the time, Credit Suisse paid $57 million for its share of the firm and proclaimed an ambitious goal of becoming the top asset manager in the market. The Swiss firm also has an investment banking business in South Korea. Its former partner Woori is one of the country's largest lenders and asset managers.

The transactions were not all East to West. In a significant move, **Affiliated Managers Group** made its first investment in Asia, paying $36 million for a 5% stake in **Value Partners Group** (AUM: $4.6 billion) of Hong Kong, one of the largest hedge funds in the region. Established in 1993 with $5.6 million in AUM, Value Partners pursues a value investing strategy in the "greater China" markets of China, Hong Kong and Taiwan. Referring to AMG's scale and "partnership approach," Value Investors touted the "broad range of exciting opportunities to leverage both our core competencies and complementary product offerings on a number of joint initiatives" *(see Hedge Funds for more information)*. In a related all-China transaction, insurance giant **Ping An** took a 50% stake in Value Partners subsidiary **Sensible Asset Management**, formed in 2004 to develop and distribute ETFs.

In a common strategy for multinational insurance companies in emerging markets, **Manulife Financial** built off an existing insurance presence in China to expand into asset management, paying $156 million for **Fortis Bank**'s 49% stake in an 8-year-old Chinese mutual fund joint venture, **ABN Amro Teda Fund** (AUM: $3.8 billion). Another insurer, Old Mutual, had reached agreement in 2008 to purchase the stake but opted out of the deal last year as it streamlined its operations in the region. Manulife, which also launched a new asset manager in Taiwan last year, said the deal "provides a rare strategic opportunity to make a fast-track entry" into China's asset management industry. The joint venture will be rebranded with the Manulife name. In 1996, the Canadian company established the first life insurance joint venture in China, now operating in 38 cities. Another insurer with an existing joint venture, **Assicurazioni Generali** of Italy, paid $140 million for 30% of 12-year-old **Guotai Asset Management**, with an eye on the domestic pension market.

Hennessy Advisors of California cut a deal with Tokyo-based asset manager **Sparx Investment & Research** to acquire two Japanese equity funds with a combined $74 million in assets. Hennessy, opining that the Japanese stock market is "poised for sustainable growth," said it is "pleased to now offer international products to our investors." The two funds were rebranded under the

Hennessy name but will be subadvised by Sparx. Hennessy, an OTC-traded stock that has made five small acquisitions since 2003, has seen its AUM drop to $700 million after a five-year period of rapid growth through 2006, when its assets rose to $2 billion.

India's asset management industry, which the U.S. Commerce Department estimates will grow sixfold by 2012 to $520 billion, continued to elicit interest from international firms. **T. Rowe Price Group** paid $138 million for a 26% stake in the nation's fourth-largest asset manager, **UTI Asset Management** (AUM: $17 billion). The Baltimore mutual fund company, which began to build its European business a decade ago, said the investment allows it "to participate directly in the tremendous growth potential of India's asset management industry" and "reflects our firm's commitment to sustaining global expansion of our investment management, distribution and related services capabilities." **Allianz** built off an insurance joint venture to expand into asset management, taking a 51% stake in a new venture with insurance partner **Bajaj Group**. The partners touted the deal as a merger of global asset management experience and local distribution reach.

Nomura Asset Management entered the Indian market by paying $66 million for 35% of **LIC Mutual Fund Trustee** (AUM: $7 billion), a unit of **Life Insurance Corp. of India** and the seventh-largest domestic asset manager. Separately, NAM parent **Nomura Holdings** applied for a license to establish a joint venture asset manager in South Korea with a small local chemical firm. Nomura Holdings, Japan's leading broker, acquired Lehman Brothers' European and Asian businesses in 2008 and has made clear its ambitions to expand globally. In making the investment in LIC, NAM said the Indian market "is key to Nomura's push to be a world-class asset management firm with a strong competitive advantage in Japan and Asia."

With the notable exception of the **BlackRock-Barclays** deal, the transatlantic pipeline remained quiet in 2009, and European companies for another year showed virtually no interest in using their currency edge to expand into the U.S. asset management business via acquisition. Indeed, the largest transaction went the other way, as **Bank of New York Mellon** paid $375 million for **Insight Investment Management**, owned by bailout recipient **Lloyds Banking Group**. The deal netted BNY Mellon $130 billion in AUM and the third-largest manager of U.K. pension funds. Insight, founded in 2002, specializes in liability-driven investment solutions (LDI), fixed income and alternatives; it was part of HBOS, the troubled U.K. bank acquired by Lloyds in 2008. Noting that the various equity collapses of the past decade have left "many retirement plans at a crisis level," **BNY Mellon Asset Management** president and CEO Ronald O'Hanley called LDI "a critical tool for meeting the needs of current and future retirees" and said the acquisition "deepens our global capabilities and is consistent with our ongoing strategy to create broad-based solutions for our clients." In 2008, non-U.S. clients accounted for 41% of revenue in BNY Mellon's asset management business, up three points from 2007.

Within Europe, most of the cross border action was centered in the wealth industry, with **Commerzbank** particularly active divesting its private banking assets, in line with government dictates *(see Wealth Management)*. In Russia, Aviva became the leading international provider of non-state pension fund products by adding ING's non-state pension fund unit (AUM: $51 million) to its existing business. In Latin America, a trio of investors acquired Citigroup's Colombian pension fund business, with $5.6 billion in AUM the fourth largest in the market. The buyers included an established local investment company, **Grupo Colpatria**, and two U.S. private equity groups specializing in Latin America, **Palmfund Management** and **Linzor Capital Partners**.

Real Estate

In 2009, concerns about real estate shifted from the beaten-down residential sector to a commercial market troubled by high vacancy rates, declining values and lots of leverage. The Moody's/REAL Commercial Property Price Index for October 2009 showed prices in the U.S. off 36% from the prior-year period while office rents nationwide fell 8.5% in the third quarter and the vacancy rate hit 16.5%, according to Reis. Then there is the financial overhang from the frothy years before the credit crisis: some $3.4 trillion in outstanding debt on commercial properties, 40% of which matures by 2012.

One major casualty last year was **Capmark Financial Group**, one the largest lenders in U.S. commercial property, which declared bankruptcy in October with assets of around $20 billion and liabilities of $21 billion. Investor Wilbur Ross, who believes the commercial market is primed for a crash, summed up the situation in November for BusinessWeek, saying, "Commercial real estate has gone from being highly liquid at sky-high prices to being extremely illiquid at distressed prices."

The story in Europe was more encouraging, though areas such as central London, which includes the City of London financial district, have seen commercial property values decline as much as 50%. Although investment in European commercial real estate remains far off of the pace of the boom years, it did rise 53% to $28 billion in the third quarter of 2009, according to Cushman & Wakefield. Against that backdrop, the combined taxable and non-taxable assets of the largest real estate managers worldwide dropped 30% to $710 billion, according to the latest annual survey by Pensions & Investments.

U.S. institutional tax-exempt assets held by the top 50 managers dropped 26% to $316 billion.

Within the real estate advisory sector, dealmakers concluded the handful of transactions that generally define the marketplace each year, two of which took place in the U.S. The largest transaction by AUM was a distress sale, involving the management buyout of **Lehman Brothers Real Estate Partners**, a private equity vehicle managing $5.6 billion in funds. The buyout group was led by Mark Walsh, who built Lehman's overall real estate division into a significant profit center until the credit crisis intruded, when Lehman's real estate bets went south and helped drive the investment bank into bankruptcy. Lehman's collapse also sparked a federal investigation into whether Lehman had hiked the paper value of its real estate assets.

The private equity assets acquired by management are primarily based outside the U.S. and include 60 hotels in the U.K. In an indication of the challenges the new managers will face in generating income from the business, the pricing on the deal was reportedly just $10 million. Lehman has been disposing of assets since it declared bankruptcy in September 2008, including the **Neuberger Berman** wealth management group, also acquired by former management.

In the second U.S. deal, **Prospect Acquisition Corp.**, a blank-check Florida company formed to make acquisitions, bought **Kennedy-Wilson, Inc.** (AUM: $2.9 billion), as both companies bid to capitalize on opportunities in the distressed real estate market. Based in California and founded in 1977, Kennedy-Wilson is a vertically integrated real estate firm with a fund management and separate account business focused on investments in the U.S. and Japan. In explaining the deal, Kennedy-Wilson said "dislocation" in financial markets will allow investors with "sufficient equity capital and investment prowess" to "emerge as the successful real estate companies of the future." Prospect raised $250 million through an initial public offering in November 2007. The merged company retained the Kennedy-Wilson name.

Real Estate Transactions

	2005	2006	2007	2008	2009
Number of Transactions	6	10	17	5	**6**
Combined Value ($M)	$221	$1,536	$2,044	$358	**$280**
Total Seller AUM ($B)	$3.7	$31.1	$53.6	$20.8	**$13.8**
Average Deal Size ($M)	$37	$154	$120	$72	**$47**
Average Seller AUM ($B)	$0.6	$3.1	$3.2	$4.2	**$2.3**

Source: Berkshire Capital Securities LLC

Hedge Funds

Following a convulsive and disaffecting 2008, hedge funds made an encouraging if tentative rebound in 2009. Net new money began entering the industry in the third quarter, albeit cautiously ($1.1 billion), following a yearlong bout of withdrawals totaling $330 billion, according to Hedge Fund Research. New fund launches began inching up the second quarter of 2009, again following a year in 2008 when fund liquidations skyrocketed to twice the number of startups. "The most recent data suggests that the sentiment of hedge fund investors has improved from historical lows, but investors remain selective about fund strategy and exposure characteristics," said Kenneth Heinz, president of HFR.

Performance was the key to the improving sentiment, with HFR placing average returns at 19% through November 2009. In a reflection of broader industry trends, London's **Man Group**, the largest publicly traded pure hedge fund, saw its AUM begin to stabilize in the half year through September 2009, though at $44 billion it was down one-third from September 2008. Half-year pretax profit, at $302 million, was off more than 50% from the same period in 2008 as fee income declined by $439 million. In a reflection of its desire to make up some of that lost business, Man announced in November it will for the first time provide its managed account platform to a third party, **Credit Suisse**.

The improved performance notwithstanding, many funds remain below their "high-water" marks, meaning lucrative performances fees are a distant hope. Fees themselves also remain under pressure from the institutional investors that constitute an increasing proportion of the investor base. Notably, the **California Public Employees' Retirement System** (Calpers) gave hedge funds warning early in 2009 that it "intends to restructure" these relationships "to achieve better alignment of interests," including lower fees.

On another front, the specter of greater regulation on both sides of the Atlantic and the insider trading scandal rocking New York-based hedge fund **Galleon Group** underlined the serious public policy and public relations challenges facing the industry. These include proposals to oversee pay and tax speculative financial transactions. In reference to the proposals, New York Times economics columnist Paul Krugman echoed the popular mood when he wrote in November: "This would be a bad thing if financial hyperactivity were productive. But after the debacle of the past two years, there's broad agreement — I'm tempted to say, agreement on the part of almost everyone not on the financial industry's payroll — with [British Financial Services Authority chief Adair Turner's] assertion that a lot of what Wall Street and the City do is 'socially useless.'"

Given the uncertain near-term outlook, it wasn't surprising, then, that hedge fund deals reverted to the understated level of activity that prevailed prior to the three-year boomlet beginning in 2006. In particular, the investment banks that were such an important buying force have vanished, along with the major banks that had stepped into the marketplace in recent years. **Morgan Stanley**, which made seven hedge fund investments between 2006 and 2008, was tending to its wounds and out of the marketplace. Lehman Brothers, a perennial dealmaker, is defunct. **Commerzbank**, which was seeking to sell its hedge fund unit early in 2009, finally threw in the towel and closed it, when AUM sank to just $300 million. Citigroup, which in 2007 made an ill-fated $800 million purchase of the now-shuttered Old Lane Partners hedge fund, has been reorganizing its diminished alternatives unit. Meanwhile, deep-pocketed investors in Asia and other emerging markets have yet to show much interest in direct investments in hedge fund companies, although interest in the investment vehicles is growing.

The largest deal by AUM involved Julius Baer Holding's purchase of **Augustus Asset Managers** (AUM: $7.6 billion), which took place prior to the Swiss company's split into separately traded asset management and wealth management entities, known as **GAM Holding** and **Julius Baer Group**, respectively. Based in London, AAM became an independent entity (and took the Augustus name) in 2007 after a buyout from Julius Baer that gave management 90% of the company. At the time, Julius Baer, which retained 10% of the company and a subadvisory relationship, said AAM did not fit with its GAM alternative business in the U.K., acquired in 2005. However, the meltdown of 2008 led to a reversal of thinking, with both companies indicating GAM clients would be "better served as part of a larger organization." GAM Holding has $113 billion in AUM, including $49 billion at GAM, a fixed income and currency specialist.

In a second European deal involving partners, **Sal. Oppenheim Jr. & Cie** paid $4.9 million in cash for **Integrated Asset Management**'s 51% stake in French fund of hedge funds business **Altigefi S.A.** (AUM: $800 million). In addition to cash, the deal value included cancellation of Sal. Oppenheim's large shareholding in IAM, effectively increasing the company's net assets per share by 37%. The transaction took place prior to **Deutsche Bank**'s acquisition of Sal. Oppenheim *(see Wealth Management)* and gave the Luxembourg-based private bank 100% ownership of Altigefi.

Based in London and traded on the London Stock Exchange's Alternative Investments Market, IAM paid $11 million for Altigefi at the end of 2007, a decision it came to question in 2008 due to IAM's limited scale in fund management. IAM said it would instead focus on its brokerage business. Altigefi manages several "low-volatility" products. In a second small deal involving two London firms, multi-strategy hedge fund **Cheyne Capital Management** acquired **Altedge Capital**, an 8-year-old fund of funds manager that adds $300 million in assets to the $6 billion Cheyne already managed. Altedge said the deal provides the benefits of distribution and new clients. Cheyne also holds a 33% stake in **Acropole Asset Management**, a convertible bond specialist based in Paris.

Hedge Fund Transactions

	2005	2006	2007	2008	2009
Number of Transactions	10	29	29	30	**10**
Combined Value ($M)	$1,390	$1,570	$8,399	$1,417	**$201**
Total Seller AUM ($B)	$36.4	$57.6	$133.0	$46.2	**$19.7**
Average Deal Size ($M)	$139	$54	$290	$47	**$20**
Average Seller AUM ($B)	$3.6	$2.0	$4.6	$1.5	**$2.0**

Source: Berkshire Capital Securities LLC

The generally active transatlantic hedge fund pipeline shut down last year, with just one deal of note involving the acquisition by Connecticut investment bank **Aladdin Capital Holdings** of the European structured credit business of London hedge fund **Solent Capital Partners** (AUM: $750 million). The transaction adds a "synthetic" collateralized debt obligation (CSO) business to Aladdin's existing collateralized debt obligation (CDO) and collateralized loan obligation (CLO) businesses, which together have $10.5 billion in AUM. (Synthetic CSOs are backed by credit default swaps, as opposed to physical assets.) Six-year-old Solent was forced to seek the arms of a larger partner because of the collapse of new issues in the CDO market. "If there are no new deals then you can't grow," one Solent partner told Bloomberg. "You either get economies of scale or exit." In 2007, Solent shut its $1.5 billion Mainsail II fund when credit markets dried up and left the company unable to secure financing.

In Asia, **Affiliated Managers Group** of the U.S. paid $36 million for a 5% stake in one of the region's largest hedge funds, fast-growing **Value Partners Group** (AUM: $4.6 billion), based in Hong Kong. In 2008, AMG derived 15% of its earnings from alternative products *(see Cross Border for more information)*. Investors in Asia have become increasingly interested in hedge funds, including deep-pocketed institutions from China such as the state-run **China Investment Corp.** and **Bank of China**, which in 2008 took a majority shareholding in a small Swiss hedge fund, Heritage Fund Management, subsequently named **BOC (Suisse) Fund Management**. Hong Kong-based **Sun Hung Kai Financial** and New York hedge fund giant **Paulson & Co.** also announced plans last year to launch a fund targeting distressed financial companies.

Within Asia, Hong Kong has become the center for the hedge fund industry, with $55 billion in assets and 542 funds as of the first quarter of 2009, according to the Hong Kong Securities and Futures Commission. Although assets declined from $90 billion during the year-earlier period, they were up from just $9 billion in 2004 and the number of funds increased 11% between 2008 and 2009. The Americas and Europe constitute 84% of investors, but investments in Asia predominate.

In the U.S., there were two notable buyers of distress assets, including the year's premier dealmaker, **BlackRock**, which assumed "management responsibility" for **R3 Capital Management**, a credit-focused hedge fund. The terms of the deal were not announced, but reports indicated that little cash was involved. Launched in 2008 by former Lehman Brothers executives with a $1 billion investment from their ex-parent months before its collapse, R3 had $1.5 billion in AUM at the time of the BlackRock deal. R3 president and CEO Rick Reider was subsequently put in charge of BlackRock's fixed income alternatives portfolio group. In an internal memo published by the New York Times, BlackRock said the acquisition "substantially [expands] our fixed income portfolio management team to maximize our ability to take advantage of significant investment opportunities for our clients." Prior to the BlackRock deal, a bankrupt Lehman sold its 45% shareholding in R3 for $500 million, including a $250 million investment in one of R3's funds.

The second deal, also involving New York firms, saw **Fortress Investment Group** beat out eight other bidders for $2 billion in AUM from **D.B. Zwirn** as part of a liquidation sale. D.B. Zwirn, which at one time managed $5.5 billion in assets, was hurt by redemptions following a Securities and Exchange Commission investigation into accounting irregularities, beginning in 2007. Fortress said the funds will be rebranded as **Fortress Value Recovery Funds I**. Between the third quarter of 2008 and 2009, publicly traded Fortress saw its liquid hedge fund AUM drop in half to $4.5 billion, driven by redemptions, while its "hybrid" hedge funds assets (containing annual redemption dates) rose 20% to $9.8 billion, due to the D.B. Zwirn deal. By contrast, the company's private equity assets rose 5% to $17.8 billion.

In a transaction involving two Midwest hedge funds, **Stark Investments** acquired most of the assets of **Deephaven Capital Management**, or around $2 billion in AUM, less than half of what the firm had managed in 2007. Majority-owned by New Jersey securities firm **Knight Capital Group**, Minnesota-based Deephaven endured a turbulent 2008, ultimately suspending withdrawals from two of its hedge funds in the fourth quarter of that year, including its flagship Global Multi-Strategy Fund. Milwaukee-based Stark, which saw its AUM decline from a high of $14 billion to $10 billion by the time of the deal in January 2009, paid $7.3 million for Deephaven's assets, with another $37 million in performance-based payments possible through 2011. For Knight, the sale of 15-year-old Deephaven marked its exit from the asset management business. Separately, by year's end, the former principals in Stark's Hong Kong office left to set up their own firm, **Orchard Capital Partners**, reportedly over disagreements about investment direction. Orchard will continue to manage Stark's assets under a subadvisory agreement while introducing its own funds.

Hatteras Funds of North Carolina acquired a "controlling interest" in New York's **Alternative Investment Partners** in a bid to capitalize on mutual funds that employ hedge fund strategies. Founded in 2002, Alternative Investment Partners uses a multi-manager approach for its two open-end AIP funds, which have a combined $300 million in AUM. Hatteras, a fund of funds manager with $1.3 billion in AUM prior to the deal, will rebrand the AIP funds under its corporate name. Mutual funds that use hedging strategies offer investors the benefits of a more attractive fee structure than traditional hedge funds, along with greater transparency and liquidity. They also provide asset managers with the opportunity to reach new retail customers. In a second deal, Hatteras formed a joint venture with New York's **Ramius LLC** through which the firms will manage two fund of funds with initial capital of $347 million.

In a cross border deal in North America, **Crestline Investors** of Texas acquired $683 million in fund of funds assets and another $1.5 billion in beta overlay strategies from Toronto's privately held **Northwater Capital Management**, founded in 1989. Crestline, a specialist in low volatility and opportunistic strategies, had $3.6 billion in fund of funds AUM prior to the deal and has for years managed money for the billionaire Bass family of Texas. The company said the acquisition diversifies its client base and extends its presence into Canada, where it will set up an affiliate office in Toronto managed by Northwater's former president.

❖

Partners

H. Bruce McEver
212.207.1001
bmcever@berkcap.com

R. Bruce Cameron
212.207.1013
bcameron@berkcap.com

Caleb W. Burchenal
303.893.2899
cburchenal@berkcap.com

Richard S. Foote
212.207.1012
rfoote@berkcap.com

R. Bradley Forth
720.946.6383
bforth@berkcap.com

Ted J. Gooden
212.207.1043
tgooden@berkcap.com

Bomy M. Hong
44 (0)20 7828 2828
bhong@berkcap.com

Scott Ketner
212.207.1042
sketner@berkcap.com

Richard D. Miles
212.207.1830
dmiles@berkcap.com

Peter C. Rockefeller
212.207.1052
prockefeller@berkcap.com

Mitchell S. Spector
212.207.1828
mspector@berkcap.com

Jonathan Stern
212.207.1015
jstern@berkcap.com

Patrick von Stauffenberg
+44 (0)20 7828 2828
pstauffenberg@berkcap.com

Advisory Directors

Hoyt Ammidon, Jr.
212.207.1000

George Morriss
212.207.1000
gmorriss@berkcap.com

Andrew Martin Smith
+44 (0)20 7828 2828

Heidi Steiger
212.207.1000
hsteiger@berkcap.com

Berkshire Capital Securities LLC

535 Madison Avenue, 19th Floor
New York, NY 10022
212-207-1000

999 Eighteenth Street, Suite 3000
Denver, CO 80202
303-893-2899

Berkshire Capital Securities Ltd.

Cayzer House
30 Buckingham Gate
London SW1E 6NN
+44 (0)20 7828-2828

Berkshire Capital Securities Ltd. is authorized and regulated by the FSA

www.berkcap.com