Berkshire Capital Securities LLC

2013 | INVESTMENT MANAGEMENT INDUSTRY REVIEW

Friends of Berkshire:

In 2013, we will celebrate 30 years as a global boutique investment bank providing merger and acquisition advisory services in the investment management and securities industries. As we embark on our 30th year, we reflect on our achievements to date and look ahead to the future of our business.

Berkshire Capital was launched from the basic belief that there was a role for a focused investment banking firm to assist clients in finding the right partners and structuring lasting relationships in the investment management and securities industries. What was primarily a U.S.-based industry has grown and diversified into a global industry, one that delivers infinitely more products and services today than 30 years ago. While the industry and its players continue to evolve, the importance of the people and the cultures within these firms has been a point of consistency from the start.

As an independent and employee-owned investment bank, we are proud that our partners have been with us for an average of 13 years. With this longevity, we have maintained continuity in our relationships with our clients and the broader financial services industry, and we have become widely known experts in our field. Since inception, Berkshire Capital has advised on more than 275 transactions and over 260 valuations. Headquartered in New York, we have expanded our domestic and global reach with partners located in Philadelphia, Denver, London, Frankfurt and Sydney.

Looking forward, we are committed to continue delivering unique ideas, unbiased advice and creative solutions, anticipating our clients' needs and exceeding their expectations. We remain dedicated to our clients and believe that our success as a firm is determined by the success and durability of the partnerships we help them create.

We hope you will find this industry review to be informative and helpful as you consider your current situation. We look forward to the opportunity to work with you when the time and circumstances warrant. We would like to express our deepest gratitude to all of our clients and friends who have supported us in this journey and look forward to the next 30 years.

Warm regards,

H. Bruce McEver *R. Bruce Cameron*

Celebrating 30 YEARS 1983 | 2013

The Return of the Coupon Clipper

Consider the dividend. For decades, it was the time-honored means by which corporations delivered value to shareholders, in the process providing a simple mathematical model on which to gauge a portion of return on investment. Institutions, along with moms and dads, grandparents, and aunts and uncles were in rapture of the quarterly payout.

Then the roaring '80s came along, followed by the dot-com '90s, and the humble dividend fell into disfavor — a security blanket for veritable squares while the pros chased growth and stock appreciation. But history does move in cycles, and the dot-com crash and financial crisis have spawned a return to basics. Today, the coupon-clipping ways of those earlier generations are back in vogue as investors attempt to manage risk and find yield in a no-yield world. Referring to the newfound appreciation for dividends, Daniel Peris, co-manager of the **Federated Strategic Value Dividend** fund, told *Fortune*: "Some ask if that's a new paradigm. Well, it's not a new paradigm. It's actually a very old paradigm. It's the original paradigm."

For investors like Peris, who opined early in 2012, the news kept getting better as the year went on, as publicly traded companies continued to enhance quarterly payouts. Even cash-rich, debt-free holdout Apple finally caved in and instituted a dividend in August. In the second quarter of 2012, Standard & Poor's 500 companies in aggregate paid out $70 billion in dividends, up 11% over the same period in 2011 on a per-share basis, according to financial information and analytics provider FactSet. The gap in the price-earnings ratio of dividend to non-dividend stocks was a mere 216 basis points, compared with a 20-year monthly median above 1,300 basis points.

But the re-election of President Barack Obama opened the dividend spigot wider still, as corporations and their investors assessed the potential for a significant jump in the 15% flat tax rate on dividends in effect since 2003. Scores of companies quickly announced they would either pay year-end special dividends or move up the date of planned 2013 payouts. A number of companies, including Costco Wholesale, capitalized on low borrowing rates to help fund those special dividends. **Legg Mason** moved its quarterly dividend payment date back a month to December 2012. **Franklin Resources** announced a special dividend a week after the election, equivalent to a 2.3% return based on the day's share price. By late November, financial information firm Markit had projected that more than 120 companies would announce special dividends before year-end, or four times the level that prevails during more placid times.

Bonds, another favored asset class since the start of the financial crisis, continued to roll along, with investors having placed $1 trillion into investment-grade bond funds since 2008. Corporations across the balance sheet spectrum took full advantage of both the demand and low rates by issuing record levels of debt. By December, investment-grade debt issuance in the U.S. in 2012 had topped $1 trillion, while the combination of new bonds and leveraged loans for below-investment-grade firms totaled $854 billion. And whether investors were buying the best bonds or the "junk," both delivered solid returns. The hedge fund industry mirrored the trend, as assets in fixed income-based relative value arbitrage strategies reached parity with equity products for the first time, according to third-quarter data from Hedge Fund Research.

Clipping Bigger Coupons

S&P 500 DIVIDEND PAYOUT

2012	1Q	2Q	3Q
Total Payout ($B)	$67.4	$69.8	$73.5
Per Share (vs. 2011)	$27.70 (+15%)	$28.40 (+11%)	$29.92 (+16%)
PER SHARE, FINANCIAL SERVICES SECTOR			
Increase 2012 vs. 2011	+33%	+28%	+30%
Yield	2.1%	2.0%	2.1%

Source: FactSet

The Slowdown Continues

GDP GROWTH

	2011	2012*	2013*
U.S.	1.8%	2.2%	2.1%
Euro Area	1.4	(0.4)	0.2
U.K.	0.8	(0.4)	1.1
Japan	(0.8)	2.2	1.2
China	9.2	7.8	8.2
India	6.8	4.9	6.0
Brazil	2.7	1.5	4.0
Global	3.8	3.3	3.6
World Trade Volume *(growth in goods & services)*	5.8	3.2	4.5

** Projected*
Source: International Monetary Fund (October 2012)

Slower Procession to the Altar

MERGERS & ACQUISITIONS WORLDWIDE

NUMBER OF ANNOUNCED DEALS

	2012	(VS. 2011)
Worldwide	37,923	(-9.9%)
U.S.	8,119	(- 5.1%)
Europe	13,382	(- 16.6%)
Asia-Pacific (ex-Japan)	9,384	(- 8.1%)

VALUE OF ANNOUNCED DEALS *($ billions)*

	2012	(VS. 2011)
Worldwide	$2,588	(+ 1.7%)
U.S.	$935	(- 4.6%)
Europe	$785	(+ 10.3%)
Asia-Pacific (ex-Japan)	$438	(- 1.4%)

OF WHICH (WORLDWIDE VALUE, 2012)

Cross Border	37%
Emerging Markets *(by seller location)*	28%
Financial Services	13%
Private Equity	12%

Source: Thomson Reuters

Meanwhile, one of the biggest and most influential bond investors, **Pimco** chief investment officer Bill Gross, provocatively declared last summer that the "cult of equity is dying." The culprit, in his view: slower economic growth "due to deleveraging in the New Normal economy" that is taking the shine off stocks. Gross didn't let bonds off the hook either, arguing that with long Treasuries yielding just 2.5%, "it is even more of a stretch to assume that long-term bonds — and the bond market — will replicate the performance of decades past." Some major U.S. corporate bond investors, unnerved by the combination of negligible interest rates on investment-grade bonds and high bond prices, are also warning about the potential for future portfolio losses. At its final policy meeting of the year in mid-December, the Federal Reserve reiterated its intent to keep short-term rates near zero while for the first time citing a specific unemployment target of 6.5% before it is likely to raise them. And while the Fed doesn't anticipate unemployment dropping that low until 2015, the announcement did add a defined metric for bond investors to track — and fret about — as they assess risk.

By the time of the Fed announcement, U.S. unemployment had dropped to its lowest level (7.7%) since Obama took office in 2009, while recently released data showed GDP up 2.7% on an annualized basis in the third quarter. And though that represented the 13th straight quarter of economic growth, the recovery remains tepid and readings on the health of consumer spending contradictory. The inability of Washington to quickly cut a deal on the spending and tax issues embodied in the "fiscal cliff" remained a post-election drag on sentiment, too. On the positive side, low interest rates were helping to revive the housing market, with median prices rising for the eighth straight month in October and sales up 11% that month.

The euro zone, the world's crisis epicenter, dragged through another difficult year without imploding. The second and third quarters brought negative growth in the area, as both the German and French economies weakened, with the European Central Bank (ECB) projecting negative 0.5% growth in the euro zone for the full year. Unemployment climbed to a record 11.7%, with the Greek and Spanish numbers at depression levels of 25%. Greece was kept afloat for another year with euro zone loans as part of a long-term debt reduction plan finalized in November. But many observers view the plan as unrealistic on a number of fronts, including assumptions about economic growth. Since 2008, Greece's real GDP had declined by around 20%. For the euro zone as a whole, the ECB cut its 2013 forecast in December to negative 0.3% growth.

Under the Conservative government of Prime Minister David Cameron, in power since May 2010, the U.K. has voluntarily opted for the pain of near-term governmental austerity in the service of longer-term prosperity. The problem for the Conservatives and their Liberal Democratic coalition partner: deficit reduction targets are falling short, leading the government in December to extend that austerity pitch for another year to 2017-18. The independent Office for Budget Responsibility predicted negative economic growth of 0.1% for the U.K. in 2012, and just a 1.2% gain in 2013, down from an earlier 2% projection. In December, Standard & Poor's joined other ratings agencies in placing the U.K. on a negative watch.

From the left, French Socialist President Francois Hollande began rattling the cages of that nation's business community and its wealthy citizens soon after his election last May by proposing big tax hikes and becoming embroiled in a dispute with global steelmaker ArcelorMittal over the closing of its French plant, which Hollande threatened to nationalize. Even popular French actor Gerard Depardieu found himself in the crosshairs of Socialists regarding his patriotism after he moved to Belgium in an effort to escape high taxes. The French economy, which has long suffered from a lack of competitiveness, is expected to register marginal growth in 2013, following a similar performance in 2012 (0.2% growth).

None of these domestic trends bode well for the world's economy. By October, the International Monetary Fund had ratcheted down the economic growth forecasts it made in July, projecting global gains of 3.3% in 2012 and 3.6% in 2013. For 2013, the IMF projects 1.5% growth in advanced economies and 5.6% in emerging market and developing economies. World trade volume is projected to grow by 4.5% this year, a gain from 3.2% in 2012 but off the pace existing prior to the financial crisis. Given the pall over the global economy, stock markets worldwide delivered a surprisingly strong showing, offering up double-digit gains for 2012 in most markets, including the Athens Stock Exchange General Index (up 33% for the year). The three major U.S. indices also delivered strong returns.

As a group, publicly traded asset managers outpaced the market, with the asset managers component in the Dow Jones U.S. Total Market Industry Group up 25% in 2012. Worldwide, asset managers recorded net inflows of close to $600 billion through the third quarter, excluding money market funds, with the U.S. accounting for 58% of that total, according to Lipper. In 2011, global inflows were $84 billion. In the U.S., while AUM was helped along by market gains and inflows, the profit picture was mixed.

Equity Shy

U.S. MUTUAL FUNDS *($ billions)*

	NOV. 2012	DEC. 2011	JAN.-NOV. 2012 Inflows (Outflows)
Stock Funds	$5,852	$5,215	($122)
Hybrid	$980	$837	$46
Taxable Bond	$2,832	$2,387	$244
Municipal Bond	$590	$497	$53
Money Market	$2,617	$2,691	($77)

U.S. ETFS *($ billions)*

	NOV. 2012	NOV. 2011
Domestic Equity	$747	$615
Global/International Equity	$304	$252
Hybrid	$606	$376
Bond	$244	$178

Source: Investment Company Institute

Take Franklin Resources, for example. It saw a 14% spike in AUM in the fiscal year through September to $750 billion, but the gains were primarily through market appreciation as net new inflows were negative. Operating income declined 5% while investment management fees also slipped 4%. Nevertheless, the stock was up 31% in the nine months through end of September. In its second fiscal quarter through September, Legg Mason's AUM rose 6% to $651 billion over the year-earlier quarter, but operating revenues and income declined, with steady net outflows in both equity and fixed income assets. The company, whose stock rose just 3% in the nine months through September, manages more than twice as much in fixed income as in equities. **Affiliated Managers Group**, a proxy for a range of asset managers and investment styles, showed a 36% gain in AUM to $416 billion between September 2011 and 2012 and a 23% gain in earnings per share, including $25 billion in net inflows in the first three quarters of 2012. The stock was up 28% in the first three quarters.

Investment Management Transactions

	2008	2009	2010	2011	2012
Majority Equity	149	115	115	119	**127**
Minority Equity	29	5	15	15	**29**
Management Buyout	21	15	13	10	**13**
Total	**199**	**135**	**143**	**144**	**169**
Total Transaction Value ($B)	$16.3	$31.7	$21.2	$10.3	**$12.6**
Total AUM Changing Hands ($B)	$1,148	$3,300	$1,134	$756	**$1,133**

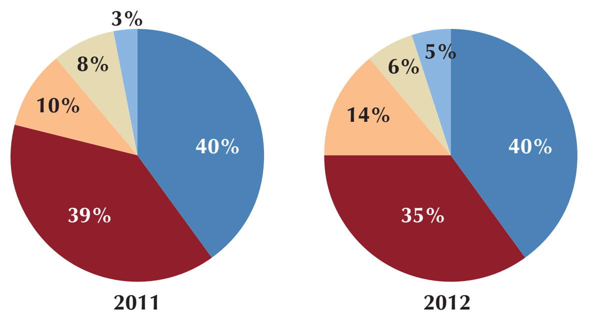
Source: Berkshire Capital Securities LLC

In 2012, all three of those firms made acquisitions, with Franklin Resources and Legg Mason investing in alternative managers in a bid to expand those capabilities. They were joined by scores of others in what was an interesting and active year for deal-makers. In total, there were 169 asset management transactions valued at $12.6 billion and involving the transfer of $1.1 trillion in AUM. Several trends that have become apparent since the financial crisis were in evidence last year. Of particular importance is the deal-making in emerging markets, including acquisitions by players based in those markets. **BTG Pactual**, one of Latin America's leading investment banks and asset managers, is a good example. Run by billionaire Andre Esteves and based in Brazil, BTG made acquisitions last year of Chile's **Celfin Capital** and Colombia's **Bolsa y Renta** that extended its presence in several Latin American markets. "Our vision is that the world is flat," Esteves is reported to have said following the Celfin deal. "There is no need any more for fund flows coming from China to Latin America to pass through London or New York."

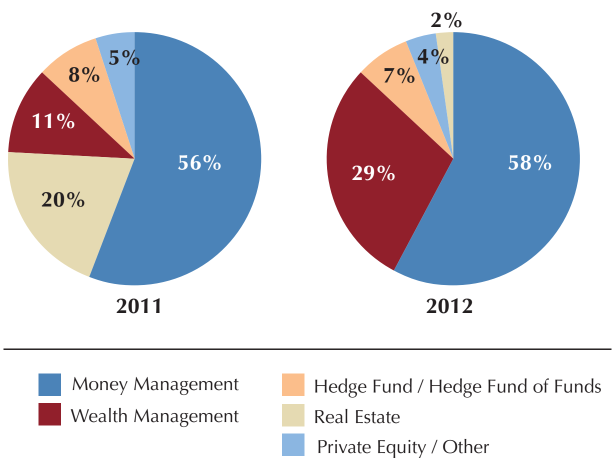
Qatar Holding, part of sovereign wealth fund **Qatar Investment Authority**, made two deals, including an institutional asset management joint venture with **Credit**

Who's Selling

NUMBER OF TRANSACTIONS BY SECTOR AS % OF TOTAL



VALUE OF TRANSACTIONS BY SECTOR AS % OF TOTAL



Source: Berkshire Capital Securities LLC

Suisse focused on the Middle East and other "frontier markets." India and China drew their share of global buyers, including Qatar Holding, but one Indian firm, **L&T Finance**, bought the Indian mutual fund business of **Fidelity Worldwide Investments**. Japanese financial firms, facing an aging and flat market at home, cut several asset management deals in Asia's two giants. In the largest, **Nippon Life Insurance Co.** paid $290 million for a minority stake in India's second-largest asset manager, **Reliance Capital Asset Management**, building off an investment it already held in **Reliance Group**'s insurance arm. Two of Canada's big five banks, **Royal Bank of Canada** and **Scotiabank**, were also active in emerging markets.

In a year that lacked the drama of a high-profile billion-dollar deal, **Julius Baer** accounted for one of the more notable ones, paying around $900 million for **Merrill Lynch**'s international wealth management unit (excluding Japan) as part of its aggressive emerging markets strategy. The Swiss wealth manager, which with the addition of Merrill's business has 50% of its AUM in emerging markets, also announced a "strategic collaboration agreement" with **Bank of China. Principal Financial** did top the billion-dollar mark in adding to its Latin American pension business with the acquisition of Chile's fourth-largest mandatory pension fund manager, **AFP Cuprum. Dai-Ichi Life Insurance Co.** announced it will acquire a minority stake in **Janus Capital Group** as part of a larger "strategic cooperation agreement" that includes an additional $2 billion investment.

The private equity industry, sitting on plenty of dry powder and enjoying attractive borrowing costs, was involved in numerous deals of note, including in the consolidating credit marketplace, where **Carlyle Group** made its fifth acquisition since 2010. **Thomas H. Lee Partners** joined Carlyle by acquiring the alternative credit unit of **McDonnell Investment Management**. Two European private equity giants, **3i Group** and **CVC Capital Partners**, also made credit-related deals. Carlyle cut a second deal to expand its hedge fund capabilities by assuming a majority stake in New York commodities specialist **Vermillion Asset Management**, while **KKR & Co.** extended its product line with the acquisition of fund of hedge funds manager **Prisma Capital Partners. Friedman, Fleischer & Lowe** purchased a majority stake in **Strategic Investment Group**, a fast-growing investment outsourcing firm for institutions, while **Lee Equity Partners** paid $265 million for **Edelman Financial Group**, a well-known name in the mass affluent market.

Another small but defined trend — involving direct investment by pension funds in asset managers who manage their money — was also on display. This included the $100 million investment **California Public Employees' Retirement System** made in **Bentall Kennedy**, a real estate advisory firm, and the $250 million **Teacher Retirement System of Texas** invested in hedge fund giant **Bridgewater Associates**.

* * *

As we've duly noted above, the asset management industry continued its post-crisis metamorphosis last year. Of particular importance, that incorporates the shift from the presumed risk of equities among retail investors, as well as institutions. For active fixed income managers enjoying a wave of inflows, that's been good news. But, like their brethren on the equity side, traditional fixed income managers must also keep an eye in the rear-view mirror on fast-growing exchanged traded funds favored for their low fees and liquidity. The largest bond fund manager, Pimco, introduced an ETF version of its mammoth **Total Return** fund that became by far the best-selling ETF last year, amassing some $4 billion in AUM. Moreover, as the BlackRocks, Charles Schwabs and Vanguards of the world battle for share, ETF fees are heading lower still.

The industry's makeover has also included divestitures and reorganizations, particularly among banks and other financial services firms impacted by the financial crisis. We highlighted the sale by Merrill Lynch (owned by **Bank of America**) of its international wealth unit to Julius Baer (soon after, Merrill divested its interest in a Japanese wealth management joint venture). **Societe Generale** joined Merrill in divesting its majority share in fixed income specialist **TCW** (acquired by Carlyle), as well

Who's Buying

	2008	2009	2010	2011	2012
Money Management	48	34	37	34	**36**
Bank	34	14	11	15	**26**
Financial	28	16	22	26	**24**
Wealth Manager	29	23	19	28	**23**
Insurance Company	7	2	5	2	**13**
MBO	21	15	13	10	**13**
Securities Firm	4	11	17	9	**9**
Real Estate Manager	2	5	6	4	**5**
Trust Company	7	8	5	3	**2**
Other	19	7	8	13	**18**
Total	**199**	**135**	**143**	**144**	**169**

Source: Berkshire Capital Securities LLC

as several other asset managers. As the year wrapped up, Belgian-French bank **Dexia** announced the $500 million sale of its asset management business to Hong Kong private equity firm **GCS Capital**. **Rabobank** of the Netherlands is in the process of selling its sprawling asset management business, **Robeco Group**, with the finalists (if they prevail) from Asia-Pacific. But last year was also notable for one expected divestiture that didn't occur, of **Deutsche Bank**'s global asset management business. After would-be buyer **Guggenheim Partners** demurred, the German bank took the business off the block and announced a plan to drive results by merging its asset management and wealth units. In similar fashion, **UniCredit** opted in 2011 to keep its **Pioneer** subsidiary and refocus on growing the business.

We've been focused for many years in these reviews on activity in emerging markets, but in recent years we've seen the emphasis begin to shift as firms based in those markets take the lead on acquisitions, with the GCS-Dexia deal the most recent example. Chinese firms, which are likely to take their place among the most significant such buyers, set a new high last year for overall U.S. acquisitions by spending more than $10 billion. This included the $4.2 billion purchase of 80% of **American International Group**'s aircraft leasing business by a consortium led by Hong Kong's **New China Trust Co.** Although China's banks have been more cautious in pursuing deals, one of the nation's big four, **China Construction Bank**, has indicated an interest in spending up to $16 billion on a European bank.

Much as in the larger society that is coming to grips with the retirement of American baby boomers, another widely anticipated and accelerating trend we see is the founders of asset management firms preparing for a changing of the guard by selling businesses in whole or part. Affiliated Managers Group's acquisition of a majority stake in noted value investor **Yacktman Asset Management** was perhaps the most prominent example last year. Founder Donald Yacktman, who will continue to run the firm, told clients the link with AMG "allows us to fully resolve generational transfers of ownership today, at a time when everyone is in excellent health." While Yacktman's firm enjoys a strong position, four years after the second market crash in less than a decade many firms are also seeking outright buyers or partners because of the unyielding financial pressures.

According to a report from McKinsey, the industry is cleaving into higher and lower margin firms, with the top third of the performers in the U.S. generating margins of 46% in 2011 versus an industry average of 28%. Asset growth, it says, has also come almost exclusively from market appreciation as opposed to fund flows, "making the industry more vulnerable to volatility." Additionally, the industry is losing share of the global financial asset pie. "Finally," McKinsey writes, "profitability in developed markets remains well below pre-crisis highs, buffeted by lower revenues and higher costs."

As asset managers and financial services firms adapt to and attempt to profit from the changes and challenges they face, we look forward to serving the firms on both sides of the buy/sell equation in what remains an extraordinarily dynamic and fascinating industry.

Money Management

With a wary eye on developments in Europe, as well as the presidential election and "fiscal cliff," investors continued to play things safe last year, even as the various equity indices served up double-digit returns. Retail investors have been particularly risk-averse, with numerous articles noting the lingering trauma from the financial crisis and some observers likening its impact on individuals to the stock market crash of 1929. In an interview with the *Wall Street Journal* in October, Steven Leuthold of **Leuthold Group** summed it up this way: "I think we've lost another generation."

Indeed, **Franklin Templeton Investments** surveys between 2010 and 2012 show that between 48% and 66% of respondents continued to perceive equity markets as depressed even as they turned up. That grim assessment has been borne out in U.S. equity mutual fund flows, which by the end of last summer had suffered 16 straight months of outflows — the longest such streak since the Investment Company Institute began collecting that data in 1984. Meanwhile, assets in U.S. bond funds have more than doubled since 2008 to $2.1 trillion. Bond guru Jeffrey Gundlach saw his **DoubleLine Capital Total Return Bond Fund** attract more money ($11.5 billion) than any other mutual fund in the year through last June, according to Morningstar.

But risk-aversion isn't limited to individuals, who generally lag behind the "smart money" when markets turn. In the latest Pension Funding Study from consulting and actuarial firm Milliman covering the year 2011, U.S. corporate pension funds had a higher proportion of assets in fixed income than equities for the first time in the 12-year history of the study. That 41% to 38% divide in favor of "safety" compares with a 60% to 29% spread favoring equities in 2006 — a stunning reversal. The U.S. isn't alone. According to the **UBS** Pension Fund Indicators report, pension funds in the U.K. have the lowest percentage of assets in equities (43%) since 1974. The U.K. Pensions Regulator and Pension Protection Fund delivers a similar story, showing just 41% of assets in equities — 20 percentage points below the level in 2006. Bonds account for 40% of holdings, up 12 points over the same period.

Money Management Transactions

	2008	2009	2010	2011	2012
Number of Transactions	77	65	54	58	**67**
Combined Value ($B)	$8.7	$25.1	$5.1	$5.8	**$7.3**
Total Seller AUM ($B)	$683	$3,011	$357	$450	**$762**
Average Deal Size ($M)	$113	$386	$95	$100	**$109**
Average Seller AUM ($B)	$8.9	$46.3	$6.6	$7.8	**$11.4**

Source: Berkshire Capital Securities LLC

As asset managers adjust their business models to account for changing attitudes and demographic trends — including the more generalized retreat from risk posed by the pending retirements of baby boomers — the money management sector drew a number of major players on the buy-side last year, primarily pursuing tack-on deals. On the sell-side, the transactions involved a mix of firms seeking the scale required to compete in a less profitable post-crisis environment, as well as owners preparing for generational management changes. As was the case in wealth management, two of the biggest deals involved cross border buyers and sellers: **Dai-ichi Life Insurance Co.**'s minority stake in **Janus Capital Group** and **Carlyle Group**'s purchase of **Societe Generale**'s U.S. unit, **TCW** *(see Cross Border)*, the latter of which was another in the lengthy list of post-crisis distress sales.

One of the major U.S. mutual life insurers, **New York Life**, was among the most active deal-makers last year, adding stakes in two companies, adopting a mutual fund in a third transaction, and divesting one business. In an institutional deal, asset management subsidiary **New York Life Investments** bought a minority position in **Cornerstone Capital Management** (AUM: $2.2 billion), a 20-year-old large-cap specialist based in Minneapolis. As part of the transaction, Cornerstone's **Keystone Large Cap Growth Fund** will be wrapped into the **MainStay Investments** funds family, with Cornerstone acting as subadvisor. MainStay (AUM: $64 billion) is New York Life's mutual fund distribution arm. Cornerstone CEO Andrew Wyatt said the partnership with the insurer enables his company to maintain its "investment and management philosophies" while "benefiting from New York Life's global breadth and depth in distribution, marketing and service."

New York Life also acquired a fast-growing 5-year-old long-short equity fund, **Marketfield Fund**, managed by **Marketfield Asset Management**. The fund was rebranded as the **MainStay Marketfield Fund** and will be subadvised by Marketfield, which remains privately held. The fund saw its AUM more than triple last year to some $3 billion at the time of the deal, due to both performance and expanded distribution. Marketfield president and portfolio manager Michael Aronstein told MFWire.com the company had "reached the stage" where it needed to build "a real marketing and support and distribution structure." In a third deal, New York Life alternatives boutique **Private Advisors** acquired a secondary private equity fund of funds firm, **Cuyahoga Capital Partners** *(see Hedge Funds/Private Equity)*. In addition, New York Life sold its pension fund specialist **McMorgan & Co.** (AUM: $4.6 billion) to management.

Goldman Sachs had its eye on the retirement market in acquiring stable value manager **Dwight Asset Management** of Vermont. Dwight manages and advises $42 billion in such assets, or around 8% of the growing $540 billion market. Stable-value funds offer higher interest rates than money market funds by investing in intermediate bonds that are in turn insured against losses. Some observers believe the insurance provision could prove a check on growth, however, as underwriters quit the business. In discussing the deal with the *Financial Times*, Bill McDermott, head of Goldman's institutional defined contribution business, pointed to baby boomers "moving their assets into more conservative options" as they prepare for retirement, adding: "We want to be a meaningful player in this part of the market."

Goldman concluded the deal with Dwight parent **Old Mutual Asset Management**, which has been restructuring in a bid to improve profitability. As part of that initiative last year, OMAM also sold five affiliates to management with combined AUM of nearly $12 billion, the largest of which was **Analytic Investors**, an equity and alternative investor with $6 billion in AUM. The various restructuring-related deals in 2011 and 2012 have left OMAM with nine diverse affiliates — half the number it had at the end of 2010 — and some $220 billion in AUM. The company said the transactions "complete the transition" of its business and enable it to "focus our capital and distribution resources on our largest affiliates and those that are pursuing initiatives most highly aligned with our overall strategy." OMAM is the U.S. asset management arm of London's **Old Mutual plc**.

In the largest deal in its 23-year history, **Hennessy Advisors** of California more than tripled its AUM by acquiring $1.9 billion in assets from 10 funds managed by **FBR Fund Advisers**, a subsidiary of Virginia-based investment bank **FBR & Co.** Three of the funds will be wrapped into similar Hennessy funds, with the rest rebranded under the Hennessy name. Neil Hennessy, chairman and CEO, said the transaction "demonstrates our continued commitment to actively pursue opportunities to grow our business, especially in this slower-growing economy." Publicly traded Hennessy has made seven deals since 2000, all involving funds.

One of the largest and most significant mutual fund deals last year saw **Affiliated Managers Group** buy a majority of **Yacktman Asset Management** (AUM: $17 billion), a prominent large-cap value investor. Yacktman, whose founder Donald Yacktman serves as president and co-chief investment officer, said the partnership with AMG "allows us to fully resolve generational transfers of ownership today, at a time when everyone is in excellent health," while offering the resources of a "leading global asset management company." As part of the deal, Yacktman's co-portfolio managers signed 10-year employment agreements. In its semi-annual report to shareholders, the company said the "ability to retain full investment autonomy and control over the day-to-day operations of our business" was a "critical element" of the transaction.

The structured products market continued the consolidation that has been taking place since the financial crisis, recording more than a half-dozen deals amid an improving marketplace for such investments.

In a bid to capitalize on investor demand for dividends, **Charles Schwab** paid $85 million in cash with potential performance-based future contingency payments to acquire **ThomasPartners** (AUM: $2.3 billion). The Massachusetts-based firm constructs growth-oriented separately managed accounts designed to generate "significant current dividend income streams." The two companies have had a relationship since 2001, with half of ThomasPartners' assets held in custody on Schwab's Advisor Services platform. The company's portfolios will be offered as part of that platform, which has $124 billion in assets.

In a year in which the money market industry dodged the tougher regulatory rules being considered by the Security and Exchange Commission, one of the industry's leading players, **Federated Investors**, cut two deals to enhance that business. (A month after the SEC's August decision to pass on new rules, the Dodd-Frank-inspired Financial Stability Oversight Council began its own regulatory review.) In the larger deal, Federated acquired $5 billion in assets from **Fifth Third Bancorp** of Cincinnati, with the second transaction involving $900 million from Mississippi financial services firm **Trustmark Corp.** The majority of the Trustmark assets were in money market funds, with some $300 million in fixed income and equity. Trustmark, the parent for **Trustmark National Bank**, said its fund clients will benefit from Federated's scale and experience. Federated, with $265 billion in money market funds, has seen its market share climb from 7% to 9.5% since 2007. Federated has indicated it will continue to seek money market fund acquisitions.

Fifth Third divested other fund businesses last year as part of an effort to reorganize around an open-architecture model while maintaining a "more concentrated menu" of institutional products. In a management buyout, the bank sold $2 billion of institutional assets run by its growth and value equity teams in Minneapolis and Cleveland. Asset management investor **Rosemont Investment Partners** supported the buyout by the new entity, **Foundry Partners**, which said it planned to enter into a "cooperative sales and service agreement" with Fifth Third. In a second deal, **Touchstone Advisors** acquired 16 equity and fixed income mutual funds from Fifth Third. A unit of insurer **Western & Southern Financial Group**, Touchstone has established a niche offering retail investors access to institutional managers through subadvised funds. Cincinnati-based Touchstone said the deal also provides access to Fifth Third's "premier distribution system."

One of the largest U.S. deals by AUM saw private equity firm **Friedman, Fleischer & Lowe** acquire a majority of **Strategic Investment Group**, an established investment outsourcing firm for institutions that manages $29 billion — twice the level in 2007. In providing the recapitalization, Friedman acquired shares held by a private investment group. Strategic CEO Hilda Ochoa-Brillembourg, who established the firm with colleagues from the World Bank pension fund in 1987, told *Pensions & Investments* the deal will "help further the transition of ownership between the founding partners and the transitioning team." The investment outsourcing industry has been growing rapidly in recent years, with corporate pensions joining the more traditional clients drawn from the endowment and foundation industries. Casey, Quirk & Associates figures the industry will generate average annual asset growth of 14% through 2016, to $500 billion. The winners, the consulting firm opines, will be those "committing ample resources to achieve best practices in investments, risk management, distribution, and marketing."

The structured products market continued the consolidation that has been taking place since the financial

crisis, recording more than a half-dozen deals amid an improving marketplace for such investments. For example, in the first 10 months of 2012, new issues of collateralized loan obligations (CLOs) in the U.S. reached $35 billion — more than double the total for the three previous years. At the height of the market in 2006-2007, a total of $170 billion in CLOs was issued in the U.S. Investors last year were drawn by both yield and increasing confidence in the safety of the securities.

> Canadian banks, which avoided the excesses of the credit bubble and emerged in an acquisitive mood, continued to extend their global footprint, with Bank of Montreal, Royal Bank of Canada and Scotiabank cutting international deals.

Carlyle Group, one of the leading such consolidators, made its fifth CLO acquisition since 2010, adding $2.8 billion of European management contracts to the $13 billion of U.S. securities it already managed. The seller, Dallas-based alternatives investor **Highland Capital Management**, retained its U.S. CLO assets. Carlyle, publicly traded since last May, said the deal demonstrates its "commitment to the European leveraged loan market." The firm also created three new CLOs last year with $1.6 billion in assets. Carlyle's Global Market Strategies (GMS) platform, primarily comprising credit-related products, has $29 billion in AUM and enjoyed a near doubling of fee income in the second quarter of 2012 from the year-earlier period. Carlyle also acquired a 55% stake in commodities asset manager **Vermillion Asset Management**, which will be wrapped into the GMS unit *(see Hedge Funds/Private Equity)*.

Another marquee player, **GE Capital**, sold $700 million of CLO contracts to New York's **CIFC Corp.** as part of a broader five-year strategic partnership. CIFC described the alliance as the "intersection of GE Capital's business as a leading corporate lender" with its own loan asset management platform. A publicly traded specialist in senior secured corporate loans, CIFC has more than $10 billion in CLOs and serves over 200 global institutions. GE Capital received around $5 million in cash as well as stock and warrants in CIFC as part of the deal. Prior to the GE transaction, CIFC facilitated a deal between two subsidiaries in which **DFR Middle Market Holdings** sold non-core CLOs to **Deerfield Capital Management** for more than $36 million. CIFC said the sale represented the completion of its plan to "reposition its core business as a fee-based asset manager and free up capital to support further growth." CIFC and Deerfield merged in 2011, creating one of the world's largest structured credit and leveraged finance asset managers.

Sound Harbor Partners, a New York alternative investment firm that provides credit to middle-market firms, acquired the management contracts on $2.2 billion in CLOs from **Aladdin Capital Holdings** of Connecticut. Sound Harbor was founded in 2009 by two partners who helped build the alternative investment businesses of Carlyle and **BlackRock**. The CLOs will continue to be managed by the same Aladdin team. Aladdin, a structured fixed income asset manager with a global clientele, maintains $5.3 billion in seven collateralized debt obligations (CDOs). Aladdin founder and majority shareholder Amin Aladin said the divested funds will "benefit from Sound Harbor's reputation, capital and risk management expertise" while furthering his company's "strategic objectives."

Carlyle was joined on the buy-side by a second private equity firm, **Thomas H. Lee Partners**, which acquired **McDonnell Investment Management**'s alternative credit unit. THL said the deal, involving $2.5 billion in assets and done through its **THL Credit Advisors** holding, was a logical addition to its direct-lending middle-market junior capital platform. McDonnell, which divested the assets to focus on its traditional fixed income platform, was subsequently acquired by **Natixis Global Asset Management**. Natixis, based in Paris and Boston, said McDonnell's fixed income and municipal bond expertise met a "critical need for clients," while McDonnell cited the access to capital and distribution for expansion provided by its new parent.

Two private equity buyers from London concluded transatlantic credit-related deals. **3i Group**, one of Europe's oldest private equity firms, expanded its debt management business with two transactions, including the acquisition of **WCAS Fraser Sullivan**, a New York firm that manages $2.5 billion in CLOs. Jeremy Ghose, managing partner and CEO of the **3iDM** debt management business, said the deal for WCAS — which established a 3i U.S. presence — brought the firm "one step closer" to its "ambition to build a global, multi-product debt platform." Prior to the WCAS deal, 3i acquired **Invesco**'s European CLO management contracts, amounting to $2.6 billion in AUM. The two transactions bring 3iDM's AUM to more than $10 billion. Like many private equity firms, publicly traded 3i has been seeking to diversify its business to both improve performance and revenue streams. The second London buyer, **CVC Capital Partners**, acquired the CLO business of Philadelphia's **Resource America** and combined their credit businesses into a new firm, **CVC Credit Partners**, with $7.5 billion in CLOs on both sides of the Atlantic. CVC Capital paid $25 million in cash and granted Resource a one-third share in the new company.

Canada's consolidation saga continued into 2012, as the nation played host to several all-domestic fund deals, as well as cross border ones involving American buyers *(see Cross Border*). Canadian banks, which avoided the excesses of the credit bubble and emerged in an acquisitive mood, continued to extend their global footprint, with **Bank of Montreal**, **Royal Bank of Canada** and **Scotiabank** cutting international deals *(see Cross Border)*. In the largest domestic deal, **Fiera Capital Corp.** (formerly Fiera Sceptre) acquired the asset management business of **National Bank of Canada**, in the process becoming the fourth-largest independent asset manager in the country and the ninth-largest overall. The transaction, valued at as much as $310 million, nearly doubles Fiera's AUM to $54 billion; provides access to the bank's distribution network; and balances the company's dominant institutional business with National Bank's retail orientation. Following the deal, Fiera's institutional AUM dropped from 76% of total assets to 54%.

In an interview with Toronto's *Global and Mail*, Fiera chairman and CEO Jean-Guy Desjardins said the company has positioned itself "to be the consolidator of choice in the Canadian marketplace." Additionally, he noted that Fiera's increased heft created a "very high probability that we will be winning business in the U.S. market" and making acquisitions. National Bank, which gained a 35% stake in Fiera, said the transaction is aligned with its objective to use "strategic partnerships to extend our reach both in Canada and abroad." Fiera said the deal would "immediately" boost earnings per share by 10%-15%. Fiera made three other deals expanding its Canadian business, including paying $52 million for **UBS Global Asset Management**'s Canadian fixed income, equity and domestic balanced account business (AUM: $8 billion). The other acquisitions were for **Canadian Wealth Management Group** and real estate investment manager **Roycom**.

Another independent manager, **AGF Management** (AUM: $43 billion), made its own deal last year, buying **Robitaille Asset Management**, a Montreal firm with $615 million in AUM. Toronto-based AGF said the deal both solidifies its long-standing relationship with RAM and enhances its position as an equity and income manager. Prior to the Robitaille transaction, AGF sold **AGF Trust Co**. to **Laurentian Bank of Canada** in a transaction valued at $415 million, more than half in cash. AGF said the sale increases the capital available to "accelerate business growth for its Canadian and international investment management operations." **Matrix Asset Management** subsidiary **Seamark Asset Management** bought **LeeSide Capital Management**, a 3-year-old institutional and wealth manager. The deal helps Matrix make up some of the ground lost when major client **Manulife Financial Corp.** pulled its assets from the firm earlier in the year. Matrix has $1.1 billion in AUM, down sharply from the $3 billion it managed in 2009.

In Europe, **DWS Group** acquired the asset management business of **Deutsche Postbank** in a deal between two German subsidiaries of **Deutsche Bank**. The transaction involved $10 billion in retail funds managed by Postbank, which is reorganizing around its core retail banking business. Deutsche acquired Postbank in 2010 as part of a bid to strengthen its own retail banking operation. Deutsche also dropped plans to divest most of its asset management business, instead creating an integrated Asset & Wealth Management division as part of a broader strategic plan announced last September to build a "leading client-centric global universal bank." The bank, which called Asset & Wealth Management "an essential part of the universal banking model," is aiming to more than double income in that division by 2015, in part by focusing on ultra high net worth and emerging market clients. Last year, Deutsche also sold its **BHF-Bank** private bank to **Kleinwort Benson Group** *(see Cross Border)*.

Wealth Management

The news about the wealth industry conveyed in the latest crop of relevant annual reviews continues to paint a picture of a generalized post-crisis funk characterized by risk-averse investors, slow asset growth, and practitioners experiencing the concurrent impact on profitability. Take the "World Wealth Report" from Capgemini and **RBC Wealth Management**. It reported that the number of high net worth individuals (investible assets of $1 million-plus) worldwide remained flat between 2010 and 2011 while their investible wealth in aggregate declined for the second time in four years, by nearly 2%. In both North America and Europe, assets among HNWIs remained below levels achieved in 2007. "A look at economic and market conditions in 2011 shows the reasons were many, but uncertainty over the ongoing Eurozone debt crisis was clearly a critical factor," the report says.

The study also highlights the ongoing challenges the industry faces as the financial crisis lingers, including one of the broad-based themes of the past four years for asset managers in general: "the post-crisis tendency of investors to opt for products that minimize risk and preserve capital." Accordingly, profitability for wealth managers is being squeezed, with the expense ratio rising sharply by 16 points between 2007 and 2010 to 80%. Regulatory changes that have added complexity to risk management also threaten to jeopardize "the future of certain revenue streams for some financial services firms." The result of all these forces, the report notes, is that "many wealth management business models are buckling under the pressure, unable to adapt quickly or effectively enough to position firms for sustained success."

The **Merrill Lynch** Affluent Insights Survey, released a few months later in September 2012 and covering only the U.S. and investors at a lower threshold ($250,000 or more in investible assets), provided a slightly different view, with larger numbers of affluent investors expressing a higher tolerance for risk than in recent years. Just 30% of those surveyed described themselves as "conservative" investors in the latest survey, compared with 36% in 2011 and 50% in 2010. But Boston Consulting Group's more comprehensive 2012 Global Wealth report was more in line with the Capgemini/RBC study, describing a bifurcated world in which "mature markets are experiencing either slow or negative growth" while developing markets "are riding a wave of very strong momentum," trends BCG expects to continue, "even if equity markets rebound in the coming years."

Within the U.S., Lee Equity Partners bought Edelman Financial Group, while several serial acquirers tapped the market, including Affiliated Managers Group, Bryn Mawr Bank Corp., City National Bank and Mariner Holdings.

In 2011, global wealth rose a weak 1.9% to $123 trillion, according to BCG's estimates, compared with nearly 10% and 7% in 2009 and 2010, respectively. Although ultra high net worth investors with more than $100 million in household wealth did better than others, asset growth was a subdued 3.6%. The consulting firm also indicates that clients maintained a conservative posture, with investments in bonds, cash and deposits comprising 44% of assets, compared with 25% in stocks. BCG figures the asset bases for wealth managers in aggregate were flat in 2011, following 11% growth in 2010, primarily due to "the deterioration in market values, which was not offset by net new inflows." BCG said there was a "slight decrease in profitability" in most regions.

Amid that challenging environment, scores of firms decided it was time for a change. There were 60 deals last year, in line with the annual average of 56 between 2008 and 2011, including three headline transactions that crossed borders and primarily involved European companies. The largest was **Julius Baer**'s $900 million acquisition of **Merrill Lynch**'s international wealth unit. A second deal saw Rothschild-controlled **RIT Capital Partners** acquire the minority stake in **Rockefeller Financial Services** owned by **Societe Generale**, while **Kleinwort Benson** of the U.K. paid $495 million for **Deutsche Bank**'s German private banking unit, **BHP-Bank** *(see Cross Border for more on all three deals)*. Within the U.S., **Lee Equity Partners** bought **Edelman Financial Group**, while several serial acquirers tapped the market, including **Affiliated Managers Group**, **Bryn Mawr Bank Corp.**, **City National Bank** and **Mariner Holdings**.

For Los Angeles-based City National Bank, the purchase of New York's **Rochdale Investment Management** represented the fourth wealth or asset manager it has acquired since 2006. The deal added nearly $5 billion to the $32 billion CNB already managed in its wealth unit and "builds upon [its] strategy of providing investment and advisory services in three distinct segments." The bank will merge Rochdale into City National Asset Management this year to create a new unit with $18 billion in AUM that targets high net worth and affluent clients, **City National Rochdale Investment Management**. By contrast, **Convergent Wealth Advisors**, acquired by CNB in 2007, is geared toward ultra high net worth investors. Rochdale CEO Garrett D'Alessandro, named head of City National Rochdale, touted the enhanced capabilities the deal provides his firm, such as a doubling of the research team and improved portfolio management, as well as the ability to "grow the business beyond what Rochdale could have accomplished alone." The sale was also driven by the planned retirement in 2014 of Rochdale chairman Carl Acebes, who founded the firm in 1975.

Mariner Holdings, which has made more than a dozen acquisitions since 2008, added three small wealth firms in the Central U.S. last year as part of the expansion of its **Mariner Wealth Advisors** business. The two largest deals involved the purchase of majority stakes in **Adams Hall Asset Management**, a 15-year-old Tulsa firm with $1.3 billion in AUM; and **RiverPoint Capital Management**, a Cincinnati-based company $1.3 billion in AUM. Adams Hall subsequently opened an office in Dallas to extend its Texas footprint. The third transaction was for **Orizon Investment Counsel** of Omaha, a 12-year-old company with $300 million in AUM and a clientele drawn heavily from the medical field. In an interview with *Investment News*, Martin Bicknell, the ambitious CEO of parent Mariner Holdings and an A.G. Edwards alumni, described the Orizon deal as "very similar" to other acquisitions the firm has made in which it seeks advisers who "want to be practitioners" more than business managers. "We can take all the other noise off their plates," he added. Mariner Holdings, which also controls institutional manager **Montage Investments** (AUM: $10 billion), has set a goal of amassing $50 billion in assets. To assist with that effort, in late 2011 the company hired **Fidelity Investments** veteran Brian O'Regan as senior vice president for growth and development. With the addition of the three Central U.S. firms, and a fourth deal for New Jersey's **Brinton Eaton** (AUM: $600 million), Mariner Wealth Advisors has more than $6 billion in AUM.

Affiliated Managers Group, based in suburban Boston, took a majority stake in **Veritable, LP**, an ultra high net worth firm with $10 billion in AUM. Veritable was one of three asset management investments AMG made last year *(see Money Management)* and the first done through a new unit the company created to invest in boutique wealth managers, **AMG Wealth Partners**. As of the third quarter of 2012, wealth management accounted for 13%, or $55 billion, of the company's AUM. During AMG's first-quarter conference call, chairman and CEO Sean Healey described Veritable as "one of the nation's premier independent wealth managers," calling the deal "a great calling card" as AMG pursues similar opportunities and "a key foundational step for our wealth management strategy." Veritable, established in 1986 and located in a converted farmhouse outside Philadelphia, retained a minority stake.

Wealth Management Transactions

	2008	2009	2010	2011	2012
Number of Transactions	80	47	39	56	**60**
Combined Value ($B)	$5.6	$5.2	$9.9	$1.1	**$3.6**
Total Seller AUM ($B)	$388	$246	$518	$80	**$240**
Average Deal Size ($M)	$70	$111	$254	$19	**$60**
Average Seller AUM ($B)	$4.9	$5.2	$13.3	$1.4	**$4.0**

Source: Berkshire Capital Securities LLC

Bryn Mawr Bank, a publicly traded Pennsylvania-based bank, has been another active buyer in recent years and is representative of community banks expanding their wealth management practices as they seek to diversify earnings with more fee income. In 2012, Bryn Mawr bought neighboring **Davidson Trust Co.**, marking its third such deal in four years, including the 2011 acquisition of **Hershey Trust Co.**'s Private Wealth Management Group. Davidson (AUM: $1 billion) was owned by **Boston Private Financial Holdings**, which acquired the firm in 2007 as it sought to expand in the Philadelphia area. Since the financial crisis, however, Boston Private has divested numerous asset managers as part of a restructuring completed last June. Davidson was the smallest of Boston Private's wealth advisors and operated in a non-core market.

Bryn Mawr said the addition of Davidson expands "our range of services, as well as our market area and depth of penetration." The price tag on the deal could reach $10.5 million (or around 1% of AUM) based on performance over an 18-month period, with one-third of the total in contingency payments. In the nine months through September 2012, Bryn Mawr's wealth management fees rose 40% to $21.4 million compared with the same period in 2011, while net interest income of $48 million increased only slightly. Wealth management assets jumped 44% during the same period to $6.5 billion, including Davidson's contribution. **BOK Financial Corp.**, a Tulsa-based regional bank, acquired independent Denver wealth manager **Milestone Group**. The deal adds $1.3 billion in assets to the $47 billion BOK manages and advises, including more than $3 billion in the Denver area. BOK has a presence in the state through a local banking subsidiary, **Colorado State Bank and Trust**, acquired in 2003. BOK said it is "actively pursuing acquisitions that allow us to continue our growth trajectory while delivering a comprehensive investment suite to our clients." BOK, which derives more than 40% of its revenue from fees and commissions, registered 28% growth in net income in its wealth management business between 2009 and 2011. Milestone co-founder Eric Koeplin told the *Denver Post* he was drawn to sell the 16-year-old firm by BOK's "unique proposal to grow — through referrals, available capital and other resources — while also maintaining our identity and independent investment philosophy." As part of the transaction, Milestone will retain its name.

New York private equity firm Lee Equity Partners was responsible for one of the higher-profile U.S. deals — the $265 million acquisition of Houston's Edelman Financial Group. Edelman, formerly known as Sanders Morris Harris, is a fast-growing and broadly recognized name in the mass affluent market thanks to its one-man marketing machine, co-CEO Ric Edelman. But Edelman's popularity did not help the stock gain adherents, as both its trading volume (daily average of 33,000 shares) and stock market capitalization (less than $200 million prior to the deal) languished. In selling the firm, which has $18 billion in assets, Edelman alluded to those issues in interviews, telling *Investment News*, "Companies of our size really have no business being public, especially in the financial sector."

Lee Equity, a middle market investor, offered a 43% premium (1.6% of AUM) over Edelman's closing price at the time of the announcement. "The Edelman Financial Group has achieved a strong track record and is a clear leader in the independent financial advisor field," said Thomas Lee, president of Lee Equity, adding that he "look[ed] forward to supporting the company's continued expansion." In a nod to the regulatory burdens facing publicly traded firms, Edelman pointed out that his now privately held firm will save $2 million each year in costs related to Sarbane-Oxley rules.

There were a couple of employee ownership-related deals of note, including the agreement by employee shareholders at **Aspiriant Investment Advisors** to swap their minority stake for equity in parent **Aspiriant**. AIA, with $2 billion in assets under management and advisement, is the former Deloitte Investment Advisors wealth management business Aspirant acquired in 2010 from tax and consulting giant Deloitte. Aspiriant, with $7 billion in assets under management and advisement, was formed in 2008 from the combination of two independent California wealth managers, Kochis Fitz and Quintile Wealth Management. The firm's goal is to create an independent, nationally recognized entity based on a broad employee-ownership model. Aspiriant has offices in seven cities throughout the U.S.

In the Midwest, 10 employees at venerable wealth manager **Bartlett & Co.** bought out owner **Legg Mason**. Based in Cincinnati and the oldest independent registered investment advisor in the U.S., Bartlett manages $2.7 billion, though assets have been generally flat for many years. As an independent company, Bartlett said it will be able to determine in-house how best to invest in its business, including the selection of appropriate software to serve its clientele. Legg acquired the company in 1996, when Bartlett had $2.3 billion in AUM. Legg is itself going through a transition, as it prepares to appoint its second CEO in five years, following the 37-year run by founder Raymond “Chip” Mason. Legg has been under particular pressure to improve results from noted investor Nelson Peltz, the company’s largest shareholder through his **Trian Fund Management** hedge fund.

On the flip side, the large Canadian banks that came out of the financial crisis unscathed and eyeing opportunities continued to extend their global presence, with a particular focus on emerging markets.

Dealmakers in the Canadian asset management industry remained active again last year, with the wealth industry accounting for three transactions of note. Following its expansion in 2011 into the U.S. via an $848 million investment in **American Century Investments**, **CIBC** made a tack-on purchase last year of the private wealth business of **MFS McLean Budden**. The acquisition adds $1.4 billion to the $13 billion CIBC already managed in its wealth unit (up from $9.9 billion in 2009). Canada’s fifth-largest bank, CIBC has made asset management a focus as it seeks expand fee income (total AUM: $80 billion). “This opportunity aligns with CIBC Wealth Management’s strategic priority to strengthen relationships with high net worth clients and enhance distribution capabilities while delivering attractive returns,” said Victor Dodig, CIBC senior executive vice president. MFS McLean Budden is owned by **Sun Life Financial**.

The second deal saw **HighView Financial Group** acquire **Bull Wealth Management Group** from Switzerland’s **EFG International**, adding $1 billion in assets to the $1.5 billion it already managed. HighView said the deal will “solidify our industry position as a leader in the Outsourced Chief Investment Officer segment in Canada” while providing the scale for growth “both organically and through select strategic acquisitions.” EFG acquired Bull Wealth in 2007 as it sought to establish a presence in Canada’s wealth industry, but the firm’s assets remained stagnant over the years. EFG has been divesting loss-making or marginal assets worldwide as part of a broad restructuring, including a second deal last year involving the sale of its Danish business to the wealth management unit of Nordic bank **SEB**. **Fiera Capital Corp.** also picked up a Canadian wealth manager (**Canadian Wealth Management**) being divested by a European company (Societe Generale). Additionally, Fiera acquired the asset management business of **National Bank of Canada** and UBS’ Canadian asset manager *(see Money Management)*.

In Europe, the purely domestic transactions were small in number and ambition, but the U.K. did host one London-centered deal of interest involving the acquisition by **James Hambro & Partners** of **Calkin Pattinson**. The addition more than doubles James Hambro’s assets under management, advice and administration to $1.8 billion. James Hambro & Partners said the deal merges two independent, fast-growing and complementary companies that are “ideally positioned to attract new clients, particularly those dissatisfied with the service offered by the large banks.” Following the 2011 acquisition of **J O Hambro Capital Management** by Australian fund manager **BT Investment Management**, James Hambro & Partners management bought out 90% of their firm, with J O Hambro retaining a 10% stake. Calkin Pattinson, which said it will “be freed from the day-to-day demands of running a firm and will have more time to devote to our clients,” will be wrapped under the James Hambro name.

Australia recorded two transactions of note, with the largest involving private equity firm **Crescent Capital Partners** paying around $250 million for **ClearView Wealth**, a wealth manager and life insurer with $3 billion in assets under management and advice. ClearView Wealth, traded on the Australian Securities Exchange, was 47%-owned by London-based investment company **Guinness Peat Group**. At one time the investment vehicle for New Zealand-born investor and corporate raider Sir Ron Brierley, GPG has been selling assets amid disappointing performance. In the second deal, **IOOF Holdings** paid nearly $50 million for **Plan B Holdings**, an established boutique wealth manager with $2 billion in AUM and operations in Australia and New Zealand. One of Australia’s largest wealth and financial services firms, IOOF has some $110 billion in assets under management, administration, advice and supervision. The company said the addition of Plan B extends its footprint in parts of Australia and New Zealand and its reach in the advisory sector. In 2008, IOOF expanded its business significantly through a merger with Australian Wealth Management, and followed up in 2009 with the purchase of **Old Mutual**’s local unit.

Cross Border

For the second year running, the breadth of cross border deal-making remained impressive, as a range of significant transactions were concluded in both developed and emerging markets. A few of the largest deals zeroed in on U.S. targets and several involving European and American sellers underline the restructuring efforts by financial services firms that continue to reshape the asset management industry.

On the flip side, the large Canadian banks that came out of the financial crisis unscathed and eyeing opportunities continued to extend their global presence, with a particular focus on emerging markets. Japan's traditionally cautious financial services firms, confronted domestically by a slack economy and daunting demographic challenges, were also notable buyers. And emerging markets players, including sovereign wealth funds, continued to flex their muscles and extend their footprint with acquisitions.

Cross Border Transactions

U.S. - INTERNATIONAL	2008	2009	2010	2011	2012
Number of Deals	22	8	17	21	**22**
Value ($B)	$0.9	$1.4	$3.9	$2.8	**$3.0**
INTERNATIONAL - INTERNATIONAL	**2008**	**2009**	**2010**	**2011**	**2012**
Number of Deals	38	13	20	27	**26**
Value ($B)	$3.3	$3.2	$2.0	$2.4	**$1.7**
TOTAL	**2008**	**2009**	**2010**	**2011**	**2012**
Number of Deals	60	21	37	48	**48**
Value ($B)	$4.3	$4.6	$5.9	$5.3	**$4.7**

Source: Berkshire Capital Securities LLC

Globally, cross border M&A was valued at $679 billion (40% of all deals) during the first three quarters of 2012, according to Thomson Reuters, a 1% drop from the same period in 2011 that compares favorably with an overall global M&A decline of 16%. Within emerging markets, M&A activity (both domestic and cross border) dropped 7% to $465 billion, with financial services deals accounting for 11% of the total. In the asset management industry, there were 48 cross border deals last year valued at $4.7 billion, with 22 involving either American buyers or sellers. By sector, money management targets predominated, accounting for 23 of the deals.

The U.S. registered two significant deals involving major fund managers, with both occurring back-to-back in August. In the first, **Carlyle Group** scooped up a traditional asset manager via the acquisition of **Societe Generale**'s majority stake in **TCW** (AUM: $130 billion). SocGen acquired an initial 51% stake in the institutional fixed income manager for $880 million in 2001, ultimately boosting that to 70%. But in the aftermath of the financial crisis, the French bank has been divesting assets to strengthen its balance sheet, in part to meet more stringent banking capital requirements. Carlyle acquired 60% of TCW while management increased its share from 17% to 40%. Significantly, Carlyle cut the deal with capital from two of its private equity funds, as opposed to corporate cash or shares. Although Carlyle did not divulge the terms, prior to the deal SocGen had written down the value of its TCW holding by some $250 million.

Based in Los Angeles and founded in 1971, TCW manages two-thirds of its assets in fixed income products, with the remainder about evenly split between equities and alternatives. Although the company endured a much publicized split in 2009 with prominent bond trader Jeffrey Gundlach, it has enjoyed a rebound in assets since then. Marc Stern, vice chairman of TCW, called the deal a "major milestone" that enhances the company's "long-term position in the competitive asset management business" while noting that the larger employee-ownership stake "will even more closely align our interests with those of our clients."

Dai-Ichi Life Insurance Co. accounted for the second August deal, announcing that it will acquire a minority stake in **Janus Capital Group** (AUM: $152 billion) as part of a larger "strategic cooperation agreement" that includes an additional $2 billion investment. For Dai-Ichi, Japan's third-largest life insurer, the deal represents its first international asset management investment since demutualizing in 2010 and is in line with a "medium-term" growth plan announced in 2011. The company, which also holds a 50% interest in Japanese fund manager **DIAM** (AUM: $125 billion), said it will acquire 15% to 20% of Janus shares in the open market and "conditional options." At the time of the deal announcement, Janus had a market capitalization of around $1.6 billion.

Dai-Ichi said the link to Janus will allow it to "acquire knowledge of [the] global asset management business." More generally, the insurer has identified the asset management business as one that shares "a close connection to the life insurance business and hold(s) growth potential in light of growth in population and/or retirement funds." For Janus, Dai-Ichi provides a large distribution network in Japan and other parts of Asia, in addition to the planned investment. In an interview with *Pensions & Investments*, Janus CEO Richard Weil noted that the company's strategy "included a prominent desire to develop non-U.S. client distribution and relationships." Janus was a high-flyer during the 1990s, as its bets on booming tech stocks fueled superior fund performance and growth in assets, which reached $330 billion prior to the dot-com implosion. In the years since, the firm has gone through several management changes and placed more emphasis on controlling investment risk and building its small fixed income business.

There were two significant transatlantic wealth deals involving major American sellers and European buyers, with Societe Generale again divesting its interest in a business. The SocGen transaction matched two venerable names in wealth circles, as Rothschild-controlled **RIT Capital Partners** bought out the French bank's 37% stake in New

York's **Rockefeller Financial Services**. RIT, with net assets of $2.4 billion, is a publicly traded investment trust managed by the Rothschild family in London. The deal, which formalizes the long-term relationship between RIT chairman Lord Rothschild and David Rockefeller, serves the purposes of two firms seeking to expand their businesses, product portfolios and reach. "I think the United States has an edge," Rothschild told the *Financial Times* in discussing the ramifications of the financial crisis. "To have a strong presence in the U.S. will be extremely important." Rockefeller, which focuses on clients with a minimum of $30 million in assets, has enjoyed solid growth, with assets under management, advisement and administration climbing some 50% to $35 billion in the three years through June 2012, according to *Barron's*.

In the second transatlantic deal, **Bank of America** sold **Merrill Lynch**'s international wealth management unit (excluding Japan) to **Julius Baer** for around $900 million in cash and shares (1.2% of AUM), saying it will focus globally on its banking and markets business. For Julius Baer, however, the deal fits squarely with a strategic emphasis on emerging markets, which account for the majority of the $84 billion in AUM it acquired. As a result, Julius Baer's emerging market AUM jumps to one-half of the pro forma total of $260 billion, from one-third prior to the transaction. Daniel Sauter, chairman of Julius Baer, called the deal "a rare opportunity to acquire an international pure-play wealth management business of significant size." The company paid for the deal in part through a rights offering completed in October. Julius Baer's challenge will be to improve results in the acquired business, which was unprofitable for Merrill. Toward that end, the company announced it will cut 15% of the combined staff. In a second emerging market deal, Julius Baer announced a "strategic collaboration agreement" with **Bank of China** involving the cross-referral of clients and joint marketing initiatives. The Swiss private bank also took a 20% stake in Italy's **Kairos Investment Management** (AUM: $5.7 billion) as part of a partnership that includes the creation of a new private bank, **Kairos Julius Baer**. The deal extends Julius Baer's presence in onshore markets. For its part, Bank of America exited a second wealth management business involving Merrill Lynch in Japan. **Mitsubishi UFJ Financial Group**, which established the joint venture with Merrill in 2006, will pay $470 million for its partner's 49% share. Mitsubishi is expected to work more closely with **Morgan Stanley**, having acquired a 22% stake in the firm during the financial crisis. The two companies have already set up several joint ventures.

As Canadian firms concluded deals in emerging markets, a couple of major U.S. asset managers, **BlackRock** and **Eaton Vance**, headed north to expand. BlackRock, which became the leading exchange-traded fund company worldwide with the 2009 acquisition of **iShares**, enhanced its No. 1 position in the Canadian market by cutting a deal for **Claymore Canada**, owned by New York's **Guggenheim Partners**. The deal added $7 billion in complementary ETF assets and boosted BlackRock's share to around 80% in a market that has nevertheless become increasingly competitive. Analysts believe the nation's ETF market could grow by more than 20% a year. Eaton Vance took a 49% share in **Hexavest Inc.** (AUM: $11 billion), an 8-year-old institutional asset manager with a global equity orientation. Eaton Vance, which has the option to take an additional 26% interest after five years, said it will "assume primary responsibility" for Hexavest's business development outside Canada. "Expanding our global and international investment capabilities has been and continues to be an important strategic priority," said Thomas Faust, chairman and CEO of Eaton Vance. Subsequently, the Boston firm launched four new Hexavest-subadvised equity funds in the U.S., three of which have a global orientation. Although Eaton Vance manages some $190 billion in assets, it has little exposure to international equities.

BlackRock, which became the leading exchange-traded fund company worldwide with the 2009 acquisition of iShares, enhanced its No. 1 position in the Canadian market by cutting a deal for Claymore Canada, owned by New York's Guggenheim Partners.

Meanwhile, Canadian firms focused on emerging markets, with three of the nation's five major banks securing such deals. There was one notable exception to the emerging markets story: **BMO Financial Group**'s acquisition of Oregon ultra high net worth firm **CTC Consulting**. The Montreal bank will combine CTC, an alternatives specialist adviser with $23 billion in assets under advisement, with its Chicago-based wealth manager, **Harris myCFO**. BMO said the deal combines CTC's "research and investment capabilities" with Harris' "advisory, implementation and reporting services" to create a stronger player in the ultra high net worth segment. BMO also extended its asset management presence in China through a minority investment in **COFCO Trust Co.** of Beijing (AUM: $5.7 billion). The company is part of **COFCO Group**, a state-run conglomerate with which BMO has had financial dealings. BMO said it "can leverage its North American wealth management and capital markets experience" to help develop COFCO Trust's business. In 2011, BMO acquired Hong Kong wealth and institutional manager **Lloyd George Management**.

The nation's largest bank, **Royal Bank of Canada**, cut a deal with government-controlled **Royal Bank of Scotland** to buy the Latin American, Caribbean and African wealth management business of private client firm **Coutts**, including staff based in Switzerland and the Cayman Islands. RBC said the transaction — involving more than $2 billion in AUM — represented an "excellent opportunity" to increase its business in "key high-growth markets." Although RBC is one of the largest wealth managers in the world, emerging markets represent just a fraction of that business, and the company has indicated its intent to expand in those markets via acquisitions. RBS has been selling non-core assets as it reorganizes around retail banking, with the divested business comprising a small portion of Coutts' worldwide assets.

Scotiabank, another active emerging markets player, took a 51% share in Colombia's fourth-largest pension fund company, **Colfondos** (AUM: $9.3 billion), calling the expansion of its footprint in Latin America "a strategic priority." The deal builds upon two other acquisitions the Toronto-based bank has made for Latin America pension fund companies since 2007 (in Peru and the Dominican Republic). Prior to the transaction, Scotiabank formed a partnership with Colfondos parent **Mercantil Colpatria** and acquired a 51% stake in another Mercantil subsidiary, **Banco Colpatria**, Colombia's fifth-largest financial group. Colombia, emerging from years of chaos spawned by organized crime and political unrest, has enjoyed solid economic growth of late and is attracting more interest from international investors. Scotiabank's global wealth management division accounted for 17% of profits in the third quarter of 2012, with international operations in general accounting for over 40%. Rich Waugh, president and CEO, has stated a goal to increase that ratio to more than 50% in the "medium term." The bank operates in more than 55 markets.

Other deals involving emerging markets were varied, with India and China remaining a focus and emerging markets players themselves taking a hand in transactions, in line with recent trends. Japanese firms were notable players in both of Asia's giants, as the nation's cash-rich corporations had by October of last year recorded more than $100 billion in international acquisitions, shattering the record of $84 billion set in 2011. The largest deal in India or China involved **Nippon Life Insurance Co.**'s $290 million acquisition of a 26% stake in India's second-largest asset manager, **Reliance Capital Asset Management** (AUM: $19 billion). As is the case with numerous deals in India and China, the two firms built off of an existing relationship involving Nippon's minority investment in **Reliance Group**'s insurance arm. Nippon, the leading private life insurer in Japan, called India an "attractive market that is expected to achieve robust growth in the long term" and said it will install a director with RCAM as part of the effort to exchange personnel and "promote further cooperation."

There were several other deals in India, which has been reforming its economy since the 1990s, albeit in fits and starts reflective of the nation's feisty political scene and the legacy of tight state control. Last year, in a bid to attract more foreign capital, India expanded the direct investments non-nationals could make in Indian stocks. Still, the Indian mutual fund market remains challenging, having stagnated since 2010 with $130 billion in AUM, largely in conservative investments. As a result, the promise of reform and long-term profit potential was not enough to keep **Fidelity Worldwide Investments** in the market, as the firm sold its loss-making 8-year-old mutual fund business to Mumbai-based **L&T Finance**. Fidelity Worldwide, which represents **Fidelity Investments**' non-North American business, managed $1.7 billion in assets in India. With the addition of that business, L&T Financial more than doubled its AUM and extends its distribution network from independent financial advisors into higher-end foreign and privately held banks. L&T, which reportedly paid around $100 million for the business, is part of Indian conglomerate Larsen & Toubro.

Atlanta-based **Invesco**, with a significant global business, opted to enter the market, taking a 49% stake in Mumbai's **Religare Asset Management Co.** (AUM: $2.6 billion), with a price tag placed in the $90 million range. RAM, which has registered fourfold growth in AUM since 2008, has offices in 53 cities across India. Invesco already had a presence in India through its **WL Ross & Co.** private equity affiliate and a large back-office function. In the company's third-quarter conference call, Invesco president and CEO Martin Flanagan said the deal "will enhance our presence in an important and growing market and will expand again our comprehensive range of investment capabilities." RAM

Cross Border Transactions by Domicile and Type

2012 BUYER: / SELLER:	U.S. / INTERNATIONAL	INTERNATIONAL / U.S.	INTERNATIONAL / INTERNATIONAL	TOTAL
Wealth Management	1	2	7	**10**
Money Management	5	6	12	**23**
Other	5	3	7	**15**
Total	**11**	**11**	**26**	**48**

2011 BUYER: / SELLER:	U.S. / INTERNATIONAL	INTERNATIONAL / U.S.	INTERNATIONAL / INTERNATIONAL	TOTAL
Wealth Management	1	2	8	**11**
Money Management	5	4	14	**23**
Other	7	2	5	**14**
Total	**13**	**8**	**27**	**48**

Source: Berkshire Capital Securities LLC parent **Religare Enterprises**, a New Delhi financial services firm controlled by the billionaire Singh brothers (Malvinder and Shivinder), acquired stakes in two U.S. alternative asset managers in 2010 through its global asset management business. The company also runs a domestic wealth management joint venture with **Macquarie Group** of Australia.

One other Indian deal of note saw London's **Schroders** acquire a 25% stake in **Axis Asset Management** (AUM: $2.3 billion), a 3-year-old firm that is part of **Axis Bank**, one of the nation's largest private (non-state) banks. Schroders derives about one-quarter of its revenue from Asia, making it the largest market after the U.K. The link to Axis Bank, with more than 1,600 branches, provides Schroders with a strong domestic distribution network. Rajiv Anand, managing director and CEO at AAM, told India's NDTV news channel that the deal allows his firm "to get a piece of the pie" of money flows from offshore investors for its domestic products while delivering to local investors some of Schroders' global products. "We will also work together to build a best-in-class asset manager," he added. Schroders concluded a second cross border deal by acquiring California-based **STW Fixed Income Management**, an established institutional firm with $12 billion in AUM and a focus on investment-grade bonds. Schroders, with $23 billion in U.S. fixed income assets prior to the deal, said the acquisition broadens its U.S. fixed income portfolio while expanding its institutional client base. Schroders global head of fixed income, Karl Dasher, told MutualFundWire.com that the two firms share a similar investment philosophy favoring actively managed and "higher-alpha" strategies over indexing, which he believes is "likely to struggle" by comparison.

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In China, where equities have been in a funk for four years running, one of Japan's largest financial firms entered the market early in 2012 — prior to the freeze in bilateral relations that began in September over a territorial dispute surrounding the Senkaku islands. That deal saw **Sumitomo Mitsui Financial Group** assume a 24% stake in Beijing's **China Post & Capital Fund Management**, in the process becoming the third Japanese firm to establish a presence in the nation's asset management industry. The 6-year-old Chinese firm, with AUM of $4 billion, has two significant domestic shareholders: **Beijing Capital Group**, an infrastructure-to-financial services provider controlled by the Beijing Municipality; and **China Post Group**, a state-owned postal business that is also the parent of **Postal Savings Bank of China**. Sumitomo, which last year paid $7.2 billion for Royal Bank of Scotland's aviation-leasing business, touted China's Post's "strong growth potential," in part based on a potentially profitable collaboration with the two state-owned enterprises.

London emerging markets specialist **Ashmore Investment Management** acquired the 49% stake owned by **Aviva** in a prospective fund management joint venture with **China Central Securities.** Aviva signed the original agreement with CCS in 2009 but had yet to receive regulatory approval for the venture. Ashmore, which in 2011 acquired a majority stake in Virginia-based emerging markets equities manager **Emerging Markets Management**, owns a minority stake in a Hong Kong-based China real estate fund manager, **Everbright Ashmore**. Graeme Dell, Ashmore group finance director, told *Financial News* that having a "Chinese asset manager in the portfolio" is a long-term necessity and noted that the company was "very happy" to choose a firm in which "the team process was well under way."

In a second Chinese deal involving a divestiture by a European firm, **Value Partners Group** of Hong Kong paid $6.4 million for the 49% share in **KBC Goldstate Fund Management** owned by Belgium's KBC Asset Management. KBC Goldstate, established in 2006, has been a troubled joint venture, with AUM of just $155 million down sharply in recent years. Value Partners, in which Boston's **Affiliated Managers Group** holds a 5% stake, said the acquisition gives it a footprint in all three "Greater China" markets of China, Hong Kong and Taiwan. "It will empower us to develop into an Asian-based, world-class fund management group," said Cheah Cheng Hye, Value's chairman and co-chief investment officer. Majority owner **Goldstate Securities Joint Stock Co.** is a Shenzhen-based investment bank, broker and advisory firm. (Separately, KBC Asset Management paid $22 million for the stakes held by two minority shareholders in Polish asset manager **KBC TCI**, giving the firm 100% of the company.) In South Korea, **Baring Asset Management** of London acquired **SEI Asset Korea Co.** (AUM: $6.3 billion), a top-20 asset manager in Asia's third-largest such market. Following the deal, Baring said it will bring its "deep pool of Asian resource and distribution expertise, aligned with our highly international investment platform, to the Korean market and build on the success already achieved by SEIAK." Baring, with $47 billion in AUM, is part of **Massachusetts Mutual Life Insurance Co**.

A Hong Kong-based private equity firm, **GCS Capital**, joined the growing lineup of Asian-based financial firms capitalizing on the financial woes of European and U.S. firms to pick up significant assets, as it beat out several rivals to pay $500 million for **Dexia Asset Management** (AUM: $105 billion). DAM's parent, French-Belgian bank **Dexia**, has been the recipient of multiple bailouts from the French and Belgian governments. GCS said it will "maintain Europe as DAM's center of excellence" while expanding distribution into emerging markets in Asia and the Middle East. As part of that distribution effort, GCS announced a partnership with banking giant **Industrial and Commercial Bank of China**, which will grant DAM "preferred asset management partner status." GCS said it also "sees a significant opportunity" to provide Asia-focused investments to DAM's European and Australian clients. In a similar opportunistic deal in 2009 featuring another Hong Kong investor, **Bridge Partners** acquired the global asset management business of **American International Group**. That same year, Singapore's **Oversea-Chinese Banking Corp.** acquired **ING Groep**'s large Asian private banking business.

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In Latin America, the major regional cross border deal with an asset management component involved Brazil's **BTG Pactual**. Run by billionaire Andre Esteves, who between 2006 and 2009 sold and then bought back (at a lower price) the firm from **UBS**, BTG has built itself into a premier investment bank in Latin America with solid ties to sovereign wealth funds in Asia and the Gulf. Last year, the company strengthened its regional position by purchasing Chilean investment bank, wealth manager and mutual fund provider **Celfin Capital** for an estimated $600 million in cash and shares. With the addition of $10 billion in AUM from Celfin, BTG approached the $100 billion mark while expanding into Chile, Colombia and Peru. BTG, which also raised $1.9 billion in an initial public offering last year on Sao Paulo's Bovespa exchange, followed up by paying $52 million for Colombian broker, fund provider and wealth manager **Bolsa y Renta** (AUM: $3.4 billion). BTG told Bloomberg the acquisition would be its "last" in Latin America as the company focuses on organic growth. In the first nine months of 2012, BTG's asset and wealth management revenues rose 47% over the previous year's period, accounting for 14% of total revenues.

Iowa's **Principal Financial** accounted for the largest transaction in the region, as it added to its Latin American pension business with the $1.5 billion acquisition of **AFP Cuprum** (AUM: $32 billion), Chile's fourth-largest mandatory pension fund manager. The deal builds on Principal's existing Chilean asset management business, which manages $5.2 billion in pension, mutual fund and annuity assets; it also adds more than 600,000 new customers. Chile's established private pension plan is one of the great success stories in Latin America and has been emulated by other nations in the region. Established in 1981, the plan has some $160 billion in AUM and continues to register strong growth, with assets growing by an annual average rate of 12% in the last decade.

Principal said the deal "will generate accelerated growth because of our ability to now offer customers in Chile an unmatched lineup of pension savings and retirement income solutions." The company paid for the deal in part with $600 million raised in a 2012 bond offering. In a second, smaller transaction, Principal acquired 60% of Brazilian mutual fund company **Claritas Investments** (AUM: $1.8 billion), giving it access to the nation's mutual fund and asset management market. As in Chile, Principal had an established presence in Brazil, where it provides pension and annuity products through a joint venture with **Banco do Brasil**. Since 2010, Principal has cut six deals to enhance its position in emerging markets, including one additional Latin American transaction (in Mexico) in 2011. The company now has $80 billion in AUM in the region.

From one of the Gulf's emerging markets, **Qatar Holding** concluded two asset management-related deals. The first saw the investment company, part of the **Qatar Investment Authority** sovereign wealth fund, take a 22% stake in China's **CITIC Capital**, a private equity and real estate investment firm. CITIC Capital counts a second powerful sovereign wealth fund among its other investors, **China Investment Corp.** For Qatar, the deal offers access to additional China investment opportunities, including private equity. CITIC Capital said the connection will provide "an enlarged capital base to fund our business expansion and investments" and "strengthen our brand positioning" as a "preferred and committed partner to invest with, both in and outside China." In the second transaction, Qatar reached agreement with **Credit Suisse** to form an asset management joint venture, **Aventicum Capital Management**. The new firm will target global institutional investors and "focus on asset classes that reflect current market trends," including investment opportunities in the Middle East, Turkey and other frontier markets. At its annual meeting, Credit Suisse chairman Urs Rohner noted that the company is taking steps to "focus our business more on faster-growing markets," with the aim of increasing share of revenues from such markets from 15% to 25% within two years.

Europe played host to several cross border deals of note, including one of the year's largest private banking transactions: **Kleinwort Benson Group**'s $495 million acquisition of **BHF-Bank**, owned by **Deutsche Bank**. Based in Germany and with roots stretching back to 1854, BHF has $46 billion in AUM and caters to middle-market entrepreneurs and their families with at least 1 million euros to invest. U.K.-based Kleinwort (AUM: $8 billion) was itself acquired in 2009 by Brussels-based **RHJ International**, which in the years since has transformed itself from an industrial holding company into a financial services group. To help fund the deal, RHJI tapped several investors, including BlackRock; privately held Chinese conglomerate **Fosun Group**; and **Aqton SE**, owned by BMW heir and billionaire entrepreneur Stefan Quandt. As a result, RHJI said its stake in Kleinwort would drop to 60%. Deutsche Bank acquired BHF in 2009 as part of the larger deal for **Sal. Oppenheim** but viewed the company as a non-core holding.

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In a second deal involving a German target, **BNY Mellon** bought the 50% of joint venture **WestLB Mellon Asset Management** that it did not own. BNY Mellon called the transaction, completed with German portfolio management and service company **Portigon**, "an important milestone," noting that Germany is "a key strategic priority." The joint venture was created in 2006 and manages $32 billion in assets for institutions. One additional transatlantic deal saw Toronto's **Canaccord Financial** buy **Eden Financial**, a U.K. private client boutique with $1.3 billion in AUM. The deal expands Canaccord's existing presence in the U.K. wealth management market gained through the 2011 acquisition of London-based **Collins Stewart Wealth Management** (AUM: $13 billion). Publicly traded Canaccord said the deal reflects a strategy of "gradually growing the scale of its wealth management platform to better leverage opportunities arising from consolidation in the U.K. wealth management industry." Canaccord will pay up to $20 million for Eden based on performance targets.

A transatlantic deal involving a U.K. buyer saw **Northill Capital** of London take a majority stake in **Riverbridge Partners**, a Minneapolis-based equity investment manager for institutions and high net worth investors. Riverbridge was founded in 1987 and has $4 billion in AUM. Northill praised Riverbridge's "investment-led ... 'no stars' culture" and "largely untapped international potential." In acquiring 58% of the company, Northill bought all of the equity of retired or former partners and half the equity of the existing management team. Northill is a 2-year-old investment firm focused on the asset management industry that is backed by Swiss-Italian billionaire Ernesto Bertarelli and managed by veterans of BNY Mellon. Northill, which seeks 50% to 80% stakes in targeted firms, rejects the label "private equity," with the firm's founder and partner Jonathan Little writing that "we invest for the very long term and derive our returns from the income generated by ownership rather than focusing on an exit." The deal represents Northill's fifth acquisition and its first involving a U.S. firm.

Real Estate

Investors are sniffing around the U.S. real estate market again, albeit with the speculative excesses of the early-to-mid 2000s still fresh in mind. Indeed, the post-crisis investor is often seeking something fairly prosaic: A return that simply beats the negligible interest offered by investment-grade corporate bonds and Treasuries. One result of this change in sentiment: The return of a once-hot real estate product that investors have shunned since 2008 — the commercial mortgage-backed security.

Last year, CMBS issues in the U.S. reached $46 billion, with some observers projecting a 50% increase in 2013. That's a far cry from the record $230 billion issued in 2007, but a sharp move off the collapse between 2008 and 2010, when issuance was a combined $25 billion. More evidence of the change: **American International Group**, brought low by mortgage-related investments during the financial crisis, is getting back in the game. In addition to its direct investments in real estate, the insurer bought back some of the CMBS the Federal Reserve divested last year. Indeed, the Fed's balance sheet clearance sale of billions of once-toxic real estate-related instruments found eager yield-seeking institutional buyers — the demand driven in part by the Fed's very own accommodative monetary policy.

Meanwhile, one of the major beneficiaries of the real estate collapse, billionaire hedge fund manager John Paulson, expressed confidence at a year-end shareholder meeting that the residential market is rebounding. His 3-year-old

Paulson Real Estate Recovery private equity fund (AUM: $300 million), which has been buying up residential land and hotel companies, has doubled in value since its launch in 2009, according to the *Wall Street Journal*, and is aiming for 24% annual returns going forward. Paulson is also raising a second fund focused on residential land purchases in what were some of the hardest-hit markets, such as Phoenix and Las Vegas.

The Lehman Brothers estate has also been capitalizing on the uptick in real estate activity to sell its existing portfolio of properties and pay off creditors, culminating in the $6.5 billion sale in November 2012 of the largest asset in its portfolio, apartment owner Archstone. The 2007 purchase of Archstone was a contributing factor in Lehman's demise, as it saddled the firm with significant debt. **Berkshire Hathaway** made a bet on the residential property market by acquiring the Prudential and Real Living real estate brokerages and forming a partnership with seller **Brookfield Asset Management** to introduce Berkshire Hathaway HomeServices. In his latest shareholder letter, Berkshire chairman Warren Buffet expressed confidence that "demographics and our market system will restore the needed balance — probably before long" to the housing market. As if to underline the positive vibes from investors, the National Association of Realtors reported in November 2012 that existing home sales rose 11% in October from the year-earlier period. Median prices were also up 11%, marking the eighth straight month of year-over-year price increases — a streak last seen in 2005-2006.

Amid these hopeful signs in residential and commercial real estate investing, in 2012, the real estate advisory industry registered 10 deals. One expected deal that would have bumped the numbers and didn't take place involved the sale by **Deutsche Bank** of its large **RREEF** real estate advisory unit. The expected buyer, **Guggenheim Partners** of New York, was initially considering a play for the German bank's global asset management business, but ultimately zeroed in on RREEF, which some observers believe could have fetched around $500 million. The two sides parted when they couldn't agree on terms, and Deutsche Bank opted to hold the real estate unit and larger asset management business, although the bank did sell its small U.K. property fund business to **BlackRock** at year-end.

The industry did draw a number of significant buyers and deals, however, including a headline transaction that saw the **California Public Employees' Retirement System** pay $100 million for a one-third stake in **Bentall Kennedy** (AUM: $19.8 billion). The deal mirrored a trend throughout the alternatives arena involving institutions making direct investments in their managers *(see Hedge Funds/Private Equity)*. Increasing numbers of institutions are also assuming direct control of parts of their real estate portfolios as they attempt to improve returns — and save on fees. These include the **Abu Dhabi Investment Authority**, **Canada Pension Plan** and Harvard University. Indeed, a Preqin survey of large institutional investors worldwide found that 80% were either investing directly in real estate or weighing the possibility, and a month before the Calpers deal, the **California State Teachers' Retirement System** paid $820 million for a multifamily and commercial property developer, **LOCR Inc**.

Calpers already manages a part of its $18 billion real estate portfolio in-house and has also worked with its fund managers to create dedicated products. But the pension fund called the deal for Bentall Kennedy, with which it had a 15-year investing relationship, "a new strategic move" that will allow staff to work with "an experienced real estate investment and management team by taking an ownership interest." Calpers, which acquired the stake from Canadian pension fund manager **Caisse de depot et placement du Quebec**, also cited the company's "environmental and governance leadership." The other major outside investor in Bentall Kennedy is **British Columbia Investment Management Corp.**, one of Canada's largest public employee pension fund managers (the company's management also holds a one-third stake). Bentall Kennedy was formed by the 2010 merger of Seattle-based Kennedy Associates and Toronto's Bentall, creating a firm that now holds 140 million square feet of properties on both sides of the border. Calpers alluded to the firm's North American platform in describing the deal, calling it "a welcome addition to our real estate strategy."

Another major pension fund investor, **TIAA-CREF**, added to its natural resource assets by acquiring a majority stake in timberland investment manager **GreenWood Resources** (AUM: $350 million). The deal brings TIAA-CREF's managed or owned timberland investments to $1.8 billion (the company has been investing in timberland since 1998). Within its natural resources portfolio, the deal also builds on TIAA-CREF's 2010 acquisition of agricultural asset manager **Westchester Group**. "Macroeconomic conditions, including a growing population and increasing demand for timber and biofuels, make this asset category a compelling

Real Estate Transactions

	2008	2009	2010	2011	2012
Number of Transactions	5	6	18	11	**10**
Combined Value ($M)	$358	$280	$960	$2,058	**$230**
Total Seller AUM ($B)	$20.8	$13.8	$79.8	$117.4	**$38.9**
Average Deal Size ($M)	$72	$47	$53	$187	**$23**
Average Seller AUM ($B)	$4.2	$2.3	$4.4	$10.7	**$3.9**

Source: Berkshire Capital Securities LLC

> The retail investor is starting to look like an attractive diversification prospect, with the price of admission for KKR's funds a mere $2,500.

long-term investment," the company said. Greenwood, founded in 1988, specializes in the acquisition, development and management of high-yield, short-rotation sustainable tree farms located throughout the world.

USAA, a financial services firm with a niche in the military market, acquired a large minority stake in **Square Mile Capital Management**, an opportunistic real estate investor with $2 billion in AUM in three funds. Those investments include distressed and high-yield debt, recapitalizations and undervalued equity situations. One example of an investment New York-based Square Mile has made is the 2011 purchase from the Federal Deposit Insurance Corp. of some $400 million in hotel-related mortgages, reportedly for around 80 cents on the dollar, in a venture with **Blackstone Group**. **USAA Real Estate**, which closed the deal for Square Mile, said the firm helps "broaden the investment opportunities we can offer our clients." USAA Real Estate manages $12 billion in diverse real estate assets for pension funds and other institutions.

There were two deals involving London buyers, the larger of which saw real estate fund manager and venture capital firm **Palmer Capital Partners** pay $64 million for **Invista Real Estate Investment Management**. Publicly traded on the London Stock Exchange's AIM exchange, Invista has $1.2 billion in AUM in an opportunistic pan-European fund and an Asia-focused fund targeting self-storage assets. In 2010, Invista lost $3 billion in real estate fund management mandates from **Lloyds Banking Group** and began selling off assets as part of a "value realization strategy" that involved returning cash to shareholders. Palmer's bid was supported primarily by funding from a U.S. real estate advisor, **Townsend Group**. In the second deal, **Henderson Global Investors** acquired **Horizon Investment Management France**, a privately owned French real estate manager with $320 million in a Luxembourg closed-end fund and asset management contracts for 25 properties valued at about $1.3 billion. Henderson, with $19 billion in property AUM (19% of total AUM), said Horizon's focus on the business sector complements its own retail property expertise in France, creating "a balanced basis from which to target future growth within the French market." The deal more than doubles Henderson's real estate AUM in France to about $2.4 billion.

Hedge Funds/Private Equity

During the course of a long and distinguished career, **KKR & Co.** co-founder and co-CEO George Roberts has amassed an estimated fortune of $3.7 billion, making him one of the 100 richest Americans in the latest *Forbes* inventory. But last November, Roberts was "just folks" at **Charles Schwab**'s annual advisors conference in Chicago, where he manned an information booth and engaged in a buffet lunch. The purpose of Roberts' visit: pitch new KKR high-yield and special situations mutual funds to John Q. Public.

Welcome to the "new normal" in the alternative investments world. Like other private equity firms, KKR's meat and potatoes involves plying big institutions for big money for acquisitions, including the famous 1988 leveraged buyout of RJR Nabisco recounted in "Barbarians at the Gate." But institutions, while committed to alternatives of all stripes, have grown testier about the performance of many private equity funds, not to mention fees. Private equity firms themselves are finding the deal environment more challenging. As of the third quarter of 2012, the industry was still sitting on $100 billion in capital raised in 2007 and 2008, according to Preqin, in addition to tens of billions more from earlier fund-raisings. Generally, private equity firms must return unused capital to investors, and forego those management fees, after five years.

In the face of these challenges, the retail investor is starting to look like an attractive diversification prospect, with the price of admission for KKR's funds a mere $2,500. KKR's transformation — also evident among its publicly traded competitors — incorporated expansion into the fund of hedge funds business last year through the acquisition of **Prisma Capital Partners**. Fund of funds have been enduring their own set of challenges, partly the result of the extra layer of fees they charge combined with underwhelming returns. The industry also received a black eye from several high-profile blowups that revealed a lack of operational, due diligence and investment acumen among some firms. In *Pension & Investments* latest annual survey, the assets of the 25 largest fund of hedge funds firms had dropped 7% to $321 billion as of June 2012. For the entire sector, assets are off a stunning 42% since June 2008, by the magazine's reckoning. Hedge Fund Research (HFR) paints a slightly less jarring picture, with AUM down 18% between 2007 and 2011 to $644 billion.

The result of these assorted pressures has been ongoing consolidation, with 2012 ushering in a number of significant fund of funds deals. Predictably, buyers have been seeking to build scale. But, as they battle for institutional mandates, they are also searching for capabilities that can help them fashion a more compelling suite of investment solutions, including managed accounts tailored for individual clients. In a study of the industry by SEI Knowledge Partnership, the most common issue raised by investors and consultants involved customizing portfolios. Prisma, for example, already manages 60% of its assets in that manner. Another key theme involved a value-added shift from brand-name managers toward emerging managers and strategies.

Meanwhile, the hedge funds comprising the fund of funds are grappling with their own new normal, including performance that often lags traditional indices. In 2012, hedge funds in aggregate returned 6.2%, according to HFR, compared with 13.4% for the Standard & Poor's 500 (16% including dividends). The challenge of delivering results in this new environment is leading some hedge funds to lower fees, including heavyweights like **Caxton Associates**. Others, like **Moore Capital Management**, are returning capital to investors, with founder Louis Bacon citing illiquid and volatile markets. George Soros and Carl Icahn returned capital and exited the job of managing money for others altogether. In a reference to the losses investors suffered in 2008, Icahn wrote: "I do not wish to be responsible to limited partners through another possible market crisis." Meanwhile, small firms are being squeezed by costs and competition for dollars, with hedge fund liquidations up 14% in the first half of 2012 compared with the same period in 2011. "The thinking that you could hunker down for a couple of years and then it would all normalize again — that is going away," Luke Ellis, head of **Man Group**'s fund of funds unit, told the *Financial Times*. "And it's coming as a shock."

As hedge funds continue to find their footing five years after the start of the financial crisis, the industry recorded 23 deals last year, compared with an average of 30 between 2006 and 2008. This included KKR's acquisition of Prisma, which provides the private equity firm with entry to the fund of funds sector via one of the larger players. Established in 2004 by three former **Goldman Sachs** partners, Prisma has nearly $8 billion in AUM, 90% from institutions, with assets nearly doubling since 2009. KKR acquired 100% of the firm, including the minority holding of Dutch insurer **Aegon**, while Prisma management agreed to invest all after-tax proceeds in their funds subject to a 5-year lockup. Aegon will also continue to invest in Prisma funds.

In discussing the deal during KKR's second-quarter conference call, Scott Nuttall, global head of the Capital and Asset Management Group, said Prisma increases the "breadth of the liquid product offerings" supplementing the company's current direct hedge fund portfolio and credit products, while allowing for cross-selling opportunities between the two firms' complementary client bases. Among Prisma's 50 largest clients, the firms share just two. The majority of Prisma's business revolves around customized portfolios, which can involve anywhere from a half-dozen to more than 30 managers, often early-stage firms or specialists. Prisma will retain its brand name.

Franklin Resources enhanced its alternatives platform by taking a majority share in another top-20 fund of funds manager, **K2 Advisors Holdings** (AUM: $9.3 billion), with management holding a minority stake that Franklin will begin to acquire in 2016. Franklin, which also retired K2's debt as part of the deal, bought the majority stake owned by **TA Associates**, a private equity firm with numerous investments in asset managers. Franklin, a retail-focused traditional fund manager with an eye on boosting the institutional side, called the acquisition "an important step in our overall plan to expand **Franklin Templeton**'s alternative strategies and solutions platform." In the company's fiscal fourth-quarter conference call, Franklin CEO Greg Johnson acknowledged that the acquisition would have a minimal impact "relative to our huge asset base," but called K2 "a nice fit into something that a lot of our clients have been asking about." Founded in 1994, K2 had been speaking with suitors since 2011; its two founding managing directors signed long-term employment agreements as part of the deal.

Hedge Fund / Hedge Fund of Funds Transactions

	2008	2009	2010	2011	2012
Number of Transactions	30	10	20	14	**23**
Combined Value ($M)	$1,417	$201	$2,792	$873	**$892**
Total Seller AUM ($B)	$46.2	$19.7	$125.0	$42.9	**$60.5**
Average Deal Size ($M)	$47	$20	$140	$62	**$39**
Average Seller AUM ($B)	$1.5	$2.0	$6.3	$3.1	**$2.6**

Source: Berkshire Capital Securities LLC

A third high-profile deal within the sector saw **Legg Mason** acquire **Fauchier Partners**, a London-based fund of funds manager with $6 billion in AUM. The company, established in 1994 and majority owned by **BNP Paribas** prior to the deal, will be merged with Legg Mason's existing **Permal** fund of funds unit, creating a manager with $24 billion in AUM, a broader geographic and product mix, and a stronger institutional focus. On the product side, Fauchier focuses on equity hedged and event-driven investments while Permal emphasizes fixed income, credit and macro investing. On the client end, Permal has a mix of institutional and wealthy clients in North America while Fauchier's base comprises institutions in Europe and Asia-Pacific. Clark Fenton, CEO of Fauchier, said his clients "will be able to access one of the industry's largest managed account platforms, which is of particular relevance to our growing customized account offering." Legg Mason, which acquired Permal in 2005, said the deal will be accretive to earnings in its first year. In its most recent quarter through September 2012, 39% of Legg Mason's assets were managed for non-U.S. clients while alternatives accounted for 12% of gross revenue.

In the largest fund of funds deal involving two European asset managers, Man Group acquired a neighboring London firm, **FRM Holdings** (AUM: $8 billion), to create the largest independent fund of funds business based outside the U.S., with $19 billion in AUM. The deal incorporates a maximum contingency consideration of nearly $83 billion paid out over three years based on asset retention and performance fees, with no upfront payment. Man CEO Peter Clarke said the deal provides the opportunity to "significantly improve the profitability of our multi-manager business" by combining the firms' complementary investor bases and "pairing FRM's well-regarded investment processes with Man's managed accounts infrastructure." (Clarke will step down as CEO early this year.) The combined business, which is expected to generate $45 million in annual savings, will operate under the FRM brand. For Man Group, which has suffered a sharp drop in AUM since the financial crisis, the deal boost assets and helps lessen dependence on its quantitative flagship fund **AHL**.

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There were several cross border fund of funds transactions of note, including a transatlantic deal between **Kenmar Group** of New York and **Olympia Group of Companies** of Paris. The two established companies merged to form **Kenmar Olympia Group**, with $3.3 billion in AUM across a broad product portfolio and offices in the U.S., Europe and Asia. In addition to expanding the product portfolio, Olympia CEO Sergio Heuer said the deal will "enhance our ability to source new managers and provide opportunities for career growth to our employees." London private equity firm **Richmond Park Partners**, which acquired Olympia in 2011, retains an investment. At the time of the Richmond deal, Olympia had lost two-thirds of its assets in the aftermath of the financial crisis, much of it from banking and structured finance clients selling holdings to raise capital. In a report following the Kenmar deal announcement, Fitch Ratings said the merger will place the combined group "in a better position to ultimately achieve operating profitability" owing to scale, including "potential cost synergies." Within France, **Rothschild & Cie Gestion** merged its traditional and alternative multi-manager business with that nation's first fund of funds firm, **HDF**, to create a larger specialized asset manager with $5.1 billion in AUM. The new company, **Rothschild HDF Investment Solutions**, is two-thirds owned by Rothschild. Rothschild & Cie Gestion is the asset management unit of **Rothschild & Cie Banque Group**.

Another European fund of funds player, **Gottex Fund Management Holdings**, acquired Hong Kong-based **Penjing Asset Management**, a 7-year-old fund of funds manager with $430 million in AUM. The cash-and-shares deal incorporates a contingency payment based on assets. Swiss-based Gottex said the combination establishes one of the largest Asia-focused fund of funds groups, with around $800 million in AUM. In 2011, Gottex co-founder Max Gottschalk moved to Hong Kong, saying "the huge wealth creation the region is experiencing" necessitated his being there full time to "service our clients and present them with market-leading investment solutions." Following the Penjing acquisition, the company also appointed a marketing head for Asia-Pacific. In its latest full year (2011), Gottex counted just 1% of its client base in Asia-Pacific, with the majority in Europe. Publicly traded Gottex has $7.4 billion in AUM, about half the level it managed prior to the financial crisis. A second fund of funds deal involving an Asian target saw Amsterdam-based seeding platform **IMQubator** create a partnership with **Synergy Fund Management** of Hong Kong to seed emerging Asian hedge fund managers.

There were a couple of small domestic U.S. deals early in the year involving fund of funds managers. In the first, **Lighthouse Partners** (AUM: $6.4 billion) acquired a minority stake in **361 Capital**, in the process gaining access to a larger menu of affiliated advisors and intermediaries. For its part, Denver-based 361 said it "expects to leverage Lighthouse Partners' expertise in creating alternative investment products to expand [its own] lineup of liquid alternative investment vehicles." Assets in mutual fund liquid alternative investments grew 128% to $99 billion between October 2008 and March 2012, according to Morningstar Direct, while ETFs amassed $144 billion in such assets. The second saw **Crestline Investors** of Texas acquire the management contracts to **Lyster Watson & Co.**'s fund of funds business, amounting to around $300 million in assets. Crestline already managed more than $6 billion in such assets. Lyster Watson is divesting the business as part of a larger reorganization of its hedge fund operations, including a second sale of a hedge fund beta business to mutual fund manager **Van Eck Associates**.

Two private equity firms cut deals for hedge fund managers, including **Carlyle Group**, which took a 55% stake in a New York commodities specialist, **Vermillion Asset Management**. The deal includes cash, an ownership interest and contingency payments paid over five-plus years. Established in 2005, Vermillion manages three varied commodities funds with $2.2 billion in AUM. Noting that "global, secular trends are fundamentally reshaping" supply and demand for commodities, Vermillion said the partnership with Carlyle "will help us maximize these opportunities to deliver more alpha to our investors." Carlyle, which has made two other hedge fund acquisitions since 2010, said Vermillion will become its exclusive commodities trading platform. The second firm, **Dyal Capital Partners**, bought minority stakes in two U.S. fund of funds managers: **Mast Capital Management**, a 21-year-old credit-focused firm with $1.5 billion in AUM; and **Pinnacle Asset Management**, a commodities specialist with $2.3 billion in AUM. In addition, the firm acquired a minority stake in an established French quantitative hedge fund, **Capital Fund Management** (AUM: $5.1 billion). Created in 2010 by **Neuberger Berman Group**, Dyal makes minority investments in established hedge funds with between $1 billion and $5 billion in AUM. The deals represent the second and third of about a dozen such investments Dyal plans to make. Dyal is managed by executives from the former Lehman Brothers who invested in such hedge funds as **D.E. Shaw** and **GLG Partners**.

In a low interest rate environment that has challenged insurers to generate decent returns, Swiss property and casualty insurer **Allied World Assurance Co. Holdings** cut a "strategic partnership" with private equity and hedge fund manager **MatlinPatterson Asset Management** (AUM: $5.5 billion). The deal includes a minority stake and capital investment in the continued expansion of MatlinPatterson's platform. In addition, New York-based MatlinPatterson will manage $500 million of Allied's portfolio over time in existing and future liquid credit strategies. The deal, done through the recently established **Allied World Financial Services** subsidiary, is designed to diversify the parent's earnings stream with "trusted asset management and other business leaders." Founded in 2002 as a spinout from Credit Suisse First Boston, MatlinPatterson manages funds in the distressed and credit markets. In a second asset management deal, Allied World acquired a minority stake in **Aeolus Capital Management**, a Bermuda-based investor in the property catastrophe reinsurance and retrocession market with $1.7 billion in AUM. **Tetragon Financial Group**, a credit investor based in Guernsey and traded on the NYSE Euronext in Amsterdam, acquired its affiliated parent, London hedge fund manager **Polygon Management**, in a $100 million deal. Founded in 2002, Polygon has $450 million in hedge fund assets, down substantially since the financial crisis, as well minority interests in two other asset managers. The deal is in keeping with Tetragon's "growth strategy" of creating a diversified financial services firm.

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In the U.S., publicly traded fund manager **Calamos Investments** expanded its existing alternatives lineup by acquiring **Black Capital**, a small long-short hedge fund founded in 2009 by former **Janus Capital Group** CEO Gary Black. As part of the deal, Black joined Calamos as co-chief investment officer. Calamos CEO John Calamos, Sr., said the transaction "supports our strategic roadmap for delivering investment performance and evolving our global investment platform." Founded more than 35 years ago, Calamos generated rapid asset growth through investments in convertible bonds, equities and high-yield bonds, and in particular via its highly rated **Calamos Growth Fund**. But the company's fortunes began to falter prior to the financial crisis, with AUM declining by nearly half from $46 billion before starting a recovery in 2009 and flattening out of late at $34 billion. Alternatives account for 7% of AUM.

Management at **Overland Advisors** bought a majority interest in their 3-year-old firm from **Wells Fargo**, which retained a minority share. Overland, which expects the new structure to facilitate fund-raising from outside investors, has $2.2 billion in AUM. Wells Fargo told Bloomberg the deal was designed to realign "ownership interests" in a way "that is consistent with industry standards and client expectations," but denied it was driven by regulatory changes. As if to underline the point, Wells Fargo subsequently acquired a minority interest in **Rock Creek Group**, with the option to add to its stake. Rock Creek, based in Washington, D.C., is a fund of hedge funds and emerging markets investor with $7 billion in AUM. The firm was owned by Carlyle Group until a management buyout in 2003. Wells Fargo made the investment through its Affiliated Managers division, which pursues a multi-boutique model.

One of the largest U.S. public pension funds, **Teacher Retirement System of Texas**, made a $250 million investment in the world's largest hedge fund, **Bridgewater Associates**, in a sign of the tighter bonds some institutions are securing with their managers. In return, TRS gained an equity stake that will also confer a percentage of the hedge fund's profits, including the attractive fees paid by institutions. In 2011, the flagship **Bridgewater Pure Alpha** macro fund generated a $14 billion gain for investors, while founder and co-chief investment officer Ray Dalio took home $3.9 billion, according to *Absolute Return* magazine. In the first six months of 2012, however, the fund had a negative return. In a letter to clients, Bridgewater said the deal is part of a 10-year plan "to transition Bridgewater from being run by Ray, to being independent of Ray." Britt Harris, chief investment officer at TRS, served as CEO at Bridgewater in 2005. In its latest fiscal year, TRS had 3.5% of its $111 billion in assets in hedge funds, slightly below its 4% target.

Private Equity Fund Transactions

	2008	2009	2010	2011	2012
Number of Transactions	7	6	12	5	**9**
Combined Value ($M)	$197	$871	$2,403	$464	**$575**
Total Seller AUM ($B)	$9.6	$3.6	$54.5	$65.8	**$31.6**
Average Deal Size ($M)	$28	$145	$200	$93	**$64**
Average Seller AUM ($M)	$1,369	$594	$4,543	$13,158	**$3,511**

Source: Berkshire Capital Securities LLC

There were similar deals involving private equity firms that underline the industry's gradual transformation from the traditional partnership model into one where companies are publicly traded or incorporate new outside institutions into their partnerships. In the highest-profile deal, the **Florida State Board of Administration** and an unidentified sovereign wealth fund acquired a combined 10% stake in Rhode Island-based **Providence Equity Partners**. FSBA, which has several hundred million dollars invested with Providence, reportedly paid $150 million for its share. Providence, with $27 billion in assets, plans to use the capital for such growth initiatives as global expansion. In 2010, FSBA made a direct investment in another established U.S. private equity firm, **Lexington Partners**. London-based private equity giant **CVC Capital Partners** also cut a deal to sell a 10% stake to three sovereign wealth funds, including the **Government of Singapore Investment Corp.** and the **Kuwait Investment Authority**. CVC will use the capital for new funds and to expand its infrastructure and credit businesses.

New York Life made three acquisitions last year *(see Money Management)*, including one for **Cuyohoga Capital Partners**, a value-oriented secondaries and fund of funds private equity firm with more than $800 million in AUM. The insurer cut the deal through one of its boutique firms, Virginia-based **Private Advisors**, an alternative investor with $4.5 billion in AUM. Private Advisors and Cleveland-based Cuyohoga have a prior relationship as limited partners in several lower-middle-market funds. Private Advisors said the acquisition allows it to provide investors with "a broader spectrum of private equity structures, including primary fund investments, secondary investments and direct co-investments." In 2011, Cuyohoga was spun out from **KeyCorp**, the Cleveland bank. **BlackRock** crossed the Atlantic to acquire **Swiss Re Private Equity Partners**, the European private equity and infrastructure fund of funds business owned by **Swiss Re**. The group, with $7.5 billion in assets, doubles the amount of client commitments in BlackRock's existing private equity fund of funds business and expands the product lineup in its growing alternatives unit. In addition, the deal provides access to European institutional clients served by Swiss Re Private Equity.

There were two transpacific deals involving U.S. buyers. In the first, New York's **Rohatyn Group** acquired a 60% stake in **CapAsia**, a Singaporean middle-market private equity firm that focuses on infrastructure projects in emerging Asian markets outside China and India. For Rohatyn, an emerging markets investor, CapAsia marks the second Asian private equity firm it has acquired in two years. The second deal saw **FLAG Capital Management** of Connecticut acquire **Squadron Capital**, a Hong Kong private equity fund of funds manager with $1.5 billion in AUM. For FLAG (AUM: $4.7 billion), a private equity and venture capital firm, the deal creates scale in Asia, with the two companies planning an Asia-focused fund of funds. Squadron was owned by **Search Investment Group**, the Hong Kong family office of Duty Free Shoppers founder Robert Miller. Search created Squadron in 2006 to provide a vehicle for outside investors to tap the office's private equity team. ❖

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