The Berkshire Capital Newsletter

Mid-Year Investment Management & Securities Industry Review

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Headquartered in New York City, the firm has offices in London and Denver. The Berkshire Capital team consists of about 40 professionals and support staff dedicated to our mandate with more than 20 years experience focused in the investment management and securities industries.

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THE DEALS KEEP COMING

The continuing mix of abundant cash, strong profits and attractive borrowing costs drove mergers and acquisitions to new heights in the first half of the year, with the worldwide value of announced deals jumping 44% over the same period in 2005 to a stunning $1.8 trillion, according to Thomson Financial, and Europe ($718 billion in deals) eclipsing the U.S. ($702 billion) in the value of deals.

Not coincidentally, investment-grade corporate borrowing rose 19% worldwide in the first quarter to $513 billion, according to Dealogic, with a significant portion of that designed to finance deals. Cisco, for example, floated $6.5 billion in bonds to facilitate its acquisition of Scientific-Atlanta and Oracle $5.8 billion for its purchase of Siebel Systems. Buyers were more willing to press resistant targets, too, as hostile bids jumped to the highest level ($381 billion in the first half) in years.

Private equity firms, which last year accounted for 15% of acquisitions worldwide (by value) and raked in an estimated $175 billion in new cash, continued to be active buyers in the first half of 2006, accounting for $335 billion in deal value. That represented a 51% increase over the same period in 2005, according to Dealogic. In Europe, the value of private equity deals reached $43 billion in the first quarter, the second-highest total ever. In the U.S., private equity firms raised $96 billion in the first half, a 43% increase over the same period in 2005, according to Dow Jones & Co. Among the notable U.S. deals involving these players was **Blackstone**'s acquisition, with **Brookfield Properties**, of **Trizec Properties**, at $8.9 billion the largest-ever real estate transaction involving private equity. Separately, Blackstone attracted more than $15 billion for what turned out to be the largest private equity fund on record.

> **In the U.S., private equity firms raised $96 billion in the first half, a 43% increase over the same period in 2005.**

The management buyout sector also took flight, led by Kinder Morgan's proposed record $13.5 billion buyout. In the first half of 2006 alone, the value of MBOs ($60 billion) was two to five times the value in any comparable period since 2000. Notably, **Kohlberg Kravis Roberts & Co.** raised $5 billion via the IPO of a private equity fund listed on the Amsterdam stock exchange, while **Lehman Brothers** is reportedly raising $1 billion for its own buyout fund.

In financial services, **Wachovia**'s $26 billion acquisition of Oakland, Calif.-based **Golden West Financial** led the sector, a transaction that extends Wachovia's banking presence into six new states in the West and Midwest. As part of the deal, Wachovia will also acquire Golden West's portfolio of no-load **Atlas** mutual funds and its annuity business. In two other major U.S. deals, credit card issuer **Capital One** acquired **North Fork Bancorp** of New York for $14.6 billion and **Regions Financial** cut a $9.5 billion agreement to buy **AmSouth Bancorp**, in a tie-up of two Alabama banks.

The $9.8 billion **BlackRock Inc.-Merrill Lynch & Co.** transaction, involving the transfer of Merrill's investment management business, was the headliner in the asset management arena and the largest such transaction in industry history. It also reflects the continuing reassessment taking place among banks and diversified financial services firms regarding active fund management. But unlike **Citigroup** and **American Express**, which last year chose to quit the business altogether, Merrill kept its hand in the game by taking a 49.8% stake in BlackRock. For its part, BlackRock scoops up $544 billion in AUM, along with access to Merrill's network of 15,000 brokers.

The deal creates one of the 10 largest money managers worldwide, with nearly $1 trillion in AUM, and merges BlackRock's fixed income specialization and institutional base with Merrill's equity fund and retail investor focus. BlackRock's AUM, at $450 billion, has more than doubled since the end of the bull market in 2000, benefiting in part from the shift toward bond funds. Still, with two-thirds of its AUM in fixed income products, BlackRock had limited exposure to the upside of equities.

In 2004, BlackRock added capabilities in equities as well as real estate investments, when it acquired State Street Research & Management from **MetLife**, for $350 million. But the Merrill deal is transformational, making BlackRock the 13th-largest equity manager in the world while expanding its reach to 50 countries. (In June, BlackRock introduced a new fund line wrapping Merrill's products under the BlackRock name.)

Larry Fink, who started BlackRock in 1988, remains as chief executive of the company, while former majority-owner PNC **Financial Services** retains a minority stake (34%). **Morgan Stanley** had also been in talks with BlackRock, but its insistence on a majority stake and unhappiness with valuations doomed negotiations.

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The BlackRock-Merrill deal provided the centerpiece to an active six months for deal-makers in the asset management industry, with buyers including such major firms as **Bank of New York**, **Boston Private**, **EFG International**, **Mellon Financial**, **Old Mutual**, **Schroders**, **Societe Generale**, **T. Rowe Price** and **UniCredito Italiano**. **EFG**, **Hellman & Friedman LLC** and **The Phoenix Companies** each tapped the marketplace to make multiple acquisitions.

BANK EARNINGS KEEP GROWING

Amid the robust M&A market, financial services firms continued to post strong results. Among them were **Bank of America** (second-quarter earnings up 18% to a record $5.5 billion); **Bear Stearns** (fiscal second-quarter earnings up 81%); **Goldman Sachs** (second-quarter earnings up 167%); Lehman Brothers (second-quarter earnings up 47%); and Morgan Stanley (second-quarter earnings up 111% to nearly $2 billion).

Asset managers also reported impressive if less spectacular results. Retail fund giant T. Rowe Price weighed in with a 29% increase in diluted earnings per share in the second quarter and set a new threshold for AUM, of $294 billion. At **Affiliated Managers Group**, which makes equity investments in mid-size asset managers, diluted EPS rose 37% in the second quarter. With its new management team in place and a revived lineup of funds, **Janus Capital Group** continued to make progress, as AUM rose 18% to $154 billion and diluted EPS increased 25%. **Eaton Vance**, posted a 26% increase in diluted EPS in the first quarter, while AUM rose 20%.

Overall corporate earnings remained strong in the U.S., aided by the robust results of the energy sector, with S&P 500 companies recording double-digit profit growth for the 11th straight quarter in January-March–a streak that was projected to continue into the second quarter. In another indicator of the favorable U.S. business climate, the Financial Times reported that in the five years through 2005, corporate profits as a percentage of GDP jumped more than five percentage points to 12.2%, with profits climbing 123% during that period to $1.6 trillion – the fastest such increase on record. In the first quarter, the U.S. economy continued to show resiliency in the face of high energy costs and higher interest rates, recording 5.6% growth.

The stock market was another matter, however, as rising interest rates on both sides of the Atlantic weighed on investors, leaving major markets in negative territory in the first six months. Emerging markets, the darlings of the smart investor set last year, took a beating in May, but also hosted the world's largest IPO, as **Bank of China** raised $9.7 billion on the Hong Kong exchange. (Worldwide, the value of IPOs in the first half rose 56% to $102 billion, the highest level since 2000, according to Dealogic.)

U.S. asset managers had mixed results, though they continued to command higher valuations than the market as a whole and their peers in the banking industry. By midyear, BlackRock was trading at 34 times earnings, more than twice the valuation accorded Merrill Lynch, and had appreciated 29%. Legg Mason, which acquired Citigroup's fund business last year, trades at 30 times earnings compared with 12 times for Citi. But Legg stock declined in the first half as fiscal fourth-quarter profits fell short of estimates and investors questioned the company's ability to successfully manage those Citi assets and wring cost savings out of the combination.

Bulls might take some solace from the fact that one of Wall Street's most notable pessimists, Morgan Stanley chief economist Stephen Roach, perked up in May, saying he was "feeling better about the prognosis for the world economy for the first time in ages."

Bulls might take some solace from the fact that one of Wall Street's most notable pessimists, Morgan Stanley chief economist Stephen Roach, perked up in May, saying he was "feeling better about the prognosis for the world economy for the first time in ages." The World Bank joined the hopeful chorus by raising its outlook for 2006 global growth a half-percentage point to 3.7%. ❖

WEALTH MANAGEMENT

THE GROWING RANKS OF WEALTHY PEOPLE WORLDWIDE CONTINUE TO FUEL THE AMBITIONS OF FINANCIAL SERVICES FIRMS, INCLUDING THE WORLD'S BIGGEST INSURER, AIG, WHICH EARLIER THIS YEAR ANNOUNCED A GOAL OF BECOMING A TOP 25 GLOBAL WEALTH MANAGER, WITH $100 BILLION IN AUM. The company already has a significant institutional business through its AIG Global Investment Group and a private banking presence in Switzerland and parts of Asia. Meanwhile, **Bank of America** completed phase one of the national rollout of its Family Wealth Advisors division, charged with servicing BofA's wealthiest private clients ($50 million-plus in assets).

UBS, the world's largest private bank and one of the most acquisitive, extended its reach in Latin America with the purchase of Brazil's privately held Banco Pactual. An investment bank and asset manager, **Banco Pactual** has a wealth management arm with $4.6 billion in AUM. UBS CEO Peter Wuffli, who called Brazil "a key focus area," said the deal provides "an unrivaled platform for the business to grow in Brazil and throughout Latin America." The price tag could reach $2.5 billion (initial payment: $1 billion), making it the largest acquisition for UBS since its 2000 purchase of PaineWebber. In the first quarter, UBS' wealth unit enjoyed another strong performance, with worldwide inflows rising 39% to $27 billion. In another cross border deal, **BNP Paribas** of France tapped the U.S. market to acquire 2,000 non-resident wealth management clients with a total of $2 billion in AUM, from **Bank of America**.

There were a number of small deals involving targets with approximately $300 million or less in assets, including **Contango Capital Advisors**' acquisition of **BG Associates** (AUM: $308 million), an established Phoenix firm. Started up in 2004 by rapidly growing **Zions Bancorp**. of Utah, Contango provides wealth management services to the bank's customers in 10 Southwest and Western states. The transaction represents a major growth opportunity for Contango, which had $170 million in AUM at the end of 2005.

A newly minted wealth firm, **Focus Financial Partners**, was created from the merger of four wealth managers in four states, with $35 million in backing from private equity firm **Summit Partners** (Focus plans to use the capital for additional acquisitions). The firm, which has $3.5 billion in AUM and headquarters in New York, has adopted a fee-based model that allows it to "follow a client-centric and fiduciary approach to managing clients' assets," along with an organizational structure in which partner firms remain autonomous.❖

MUTUAL FUNDS

THE BLACKROCK-MERRILL LYNCH DEAL (*SEE PAGE 2*) PROVIDED THE MOST DRAMATIC EXAMPLE TO DATE OF THE TRANSFORMATION OF THE MUTUAL FUND INDUSTRY, A PROCESS SET IN MOTION BY THE END OF THE BULL MARKET AND THE MORE STRINGENT REGULATORY ENVIRONMENT THAT GREW OUT OF THE INDUSTRY'S SCANDALS. In another sign of the times on a small scale, farm equipment manufacturer Caterpillar sold its **Caterpillar Investment Management Ltd.** fund business to **T. Rowe Price**. CIM's 10 Preferred Group of Mutual Funds (AUM: $3 billion), which were subadvised by several money managers, are being folded into existing T. Rowe funds. Caterpillar began the business in the 1980s to serve employees' 401(k) plans.

One insurer, **Guardian Life Insurance Co.,** went against the prevailing winds by expanding its small mutual fund business, acquiring a 65% stake in **RS Investments**. A 20-year-old San Francisco company with $11.8 billion in AUM, RS pursues a growth and value focus that complements Guardian's portfolio of $5.2 billion in fixed-income and "core equity" products. Guardian CEO Dennis Manning said the company would use its "extensive distribution platform to expand the breadth and depth of RS's market penetration."

Amvescap PLC tapped the growing exchange-traded funds market by acquiring **PowerShares Capital Management** (AUM: $3.5 billion), a union that will make Amvescap the No. 2 ETF provider. PowerShares, which launched its first two ETFs in 2003, was the fourth-largest ETF provider at the time of the deal and the fastest growing. The firm, whose assets have more than tripled since mid-2005, has 37 ETFs, including several unique offerings in the utilities and natural resources areas. The transaction price, initially $60 million, includes extraordinary earn-out provisions that could bring the final tab as high as $730 million, with a portion payable in stock.

Federated Investors (AUM: $217 billion), a perennial buyer in the mutual fund market, was downright hyperactive in the first half, making three tack-on acquisitions, including the **Mason Street Index 400 Fund** (AUM: $218 million); the **Wayne Hummer Growth Fund** (AUM: $158 million); and three municipal bond funds from **Sentinel Asset Management** (total AUM: $93 million). All the funds are being folded into existing Federated funds. "These transactions demonstrate Federated's continued strategic effort to seek out acquisition opportunities that increase the company's assets under management," said J. Christopher Donahue, president and CEO of Federated. Separately, Federated acquired **MDT Advisers** of Massachusetts, an institutional firm that also manages $300 million in mutual funds *(see Institutional section for more information)*.

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

Hellman & Friedman Advisors, a private equity firm that makes investments in asset managers, took a minority stake in **Artisan Partners Ltd.** (AUM: $50 billion), an 11-year-old Milwaukee firm with "high-value-added equity strategies" that runs no-load mutual funds and separately managed accounts. Artisan said the transaction was done to allow current partners to "diversify their personal portfolios" while facilitating greater ownership among younger partners. ❖

INSTITUTIONAL

FOLLOWING AN ACTIVE 2005, WHEN THE INSTITUTIONAL SECTOR RECORDED ITS GREATEST LEVEL OF M&A ACTIVITY ($5.8 BILLION IN DEALS) SINCE 2001, THE SECTOR REMAINED BUSY IN THE FIRST HALF OF THE YEAR, WITH AN IMPRESSIVE LIST OF BUYERS. In the largest of the four deals it made during the first half, Federated Investors acquired 90% of MDT Advisers, which manages $7.1 billion for institutions and in separately managed accounts *(see Mutual Fund section for information on Federated's other acquisitions)*.

Cambridge, Mass.-based MDT follows a proprietary quantitative investment process designed to outperform equity benchmarks with moderate relative risk. Said MDT president and CEO Gordon Ceresino: "We opted to collaborate with Federated, not only because of their longstanding reputation in the industry and distribution strength, but also because they share our core business values by focusing on long-term investors." Federated has the option to purchase the remaining 10% of equity by 2007; pricing could reach $240 million if targets are met, with about half the price paid upfront.

New York Life enhanced its institutional business via the acquisition of **Institutional Capital Corp.** (AUM: $14 billion), a 36-year-old Chicago firm with domestic and international equity portfolios. ICC, which touted the benefits of New York Life's "vast resources and multiple distribution channels," will operate as a stand-alone business. Last year, New York Life topped the $200 billion mark in AUM, including assets managed by affiliates; its money management arm accounted for 17% of earnings. Another insurer, **Manulife Financial Corp.**, divested itself of an institutional business, **Independence Investment LLC**, acquired as part of the 2004 purchase of John Hancock Financial Services.

For the buyer, **City National Corp.** of Los Angeles, the deal adds $8 billion in AUM to the $19 billion it previously managed. Independence is CNC's 12th and largest affiliate, most of which are managed through **Convergent Capital Management**, the asset manager acquired by CNC in 2003. Russell Goldsmith, CEO of CNC, said the deal will "broaden the selection of equity investments strategies we can offer clients, strengthen our growing network of asset management affiliates and facilitate the continued success of Independence."

Boston Private Financial Holdings added to its stable of companies by taking an 80% interest in **Anchor Holdings** (AUM: $4.1 billion), a Boston-based value-oriented firm with a niche in the fast-growing separately managed accounts business. In another deal that left equity in the hands of management, **Wachovia** acquired a 70% interest in **Metropolitan West Capital Management** (AUM: $4.5 billion), through its **Evergreen Investments** money management arm. Based in Newport Beach, Calif., 9-year-old MetWest specializes in large-cap value equity portfolios for institutions and individuals. For MetWest, the deal provides greater resources in areas such as distribution, information technology, compliance and human resources. For Evergreen, the acquisition fits with its strategy of buying large cap specialists with $1 billion to $5 billion in AUM managed for institutions and high net worth clients. Evergreen has $253 billion in AUM, primarily in fixed income and money market products.

Unicredito Italiano tapped the U.S. market again, through its **Pioneer Investments** holding, acquiring **Vanderbilt Capital Advisors** (AUM: $13 billion), a New York firm specializing in separately managed fixed income and structured products and a leader in the marketplace for collateralized debt obligations. Pioneer said the acquisition provides "valuable additions to our institutional suite of products" and is part of the "global plan to grow our institutional business." In one of the smallest deals in the first half, **Old Mutual** exercised an option struck in 2005 to acquire 60% of start-up **Copper Rock Capital Partners** (AUM: $450 million), a small cap equities firm begun by several alumni of **State Street Research.**❖

ALTERNATIVE

Alternative investments continued to capture the interest of investors and deal-makers alike worldwide, with the first half of the year particularly notable for the large number of cross border deals. In the real estate management sector, there were three transactions, including **DTZ Holdings**' purchase of 50% of **Rockwood Realty Associates** (AUM: $3.5 billion), a New York real estate advisory firm. The transaction enhances DTZ's position in the U.S., Mexico and Central America. DTZ is a major global real estate advisory and consultancy firm based in London.

In the U.S., Bank of New York acquired Urdang Capital Management, a real estate advisory firm that manages more than $3 billion in private equity investments and portfolios of REIT securities.

DTZ chief executive Mark Struckett called the deal "consistent with our strategy of further developing our global business and with our proven model of working with highly regarded local partners and leveraging their expertise." The upfront payment for a 50% investment was $45 million, but earn-out payments could raise the total consideration as high as $75 million. Following the transaction, the firm was renamed **DTZ Rockwood**.

In a second transatlantic deal, London-based **Grosvenor** acquired the real estate investment business of **Legg Mason**, a transaction that doubles Grosvenor's real estate AUM in the U.S. to $3.3 billion. Worldwide, Grosvenor has more than $17 billion in real estate AUM. In the U.S., **Bank of New York** acquired **Urdang Capital Management**, a real estate advisory firm that manages more than $3 billion in private equity investments and portfolios of REIT securities. BNY chairman and CEO Thomas Renyi said the acquisition "underscores the continued expansion of our alternative investment solutions for our institutional and private clients."

The hedge fund and fund of hedge funds sector was also notable for the dominance of cross border deals. Spanish bank **BBVA**, which made news in the U.S. with its purchase of two Texas banks (**Texas Regional Bancshares** and **State National Bancshares**), formed a strategic alliance with 10-year-old hedge fund manager **Vega Asset Management** of South Africa (AUM: $2 billion), under which BBVA will hold 51% of a new company, **Proxima Alfa Investments**. Proxima will run a portfolio of 10 hedge funds with $3 billion in AUM, including $1 billion of funds from BBVA. London-based asset manager **Caledonia** cut a deal with **Liberty Group Ltd.** of South Africa to acquire **Liberty Ermitage Jersey Ltd.** Caledonia paid $65 million upfront and could pay another $11 million with incentives for its 60% stake in Liberty, an established fund of funds manager with $2.4 billion in AUM.

Swiss private bank **EFG International** continued its recent buying spree by acquiring Bermuda-based fund of funds manager **Capital Management Advisors** (AUM: $1.7 billion). Laurence Howell, CEO of EFG International, said the addition of Capital will help his company meet growing demand from clients for hedge fund products. **AIG** purchased a 4.3% stake in London-based **Aspect Capital**, which it can raise to 8%; the insurer also invested $75 million in Aspect funds. A 9-year-old firm, Aspect Capital invests in futures, fixed-income products, currencies and international equities. **ABN Amro** bought a London- and New York-based fund of funds manager, **International Asset Management** (AUM: $2.6 billion), a deal that adds considerable bulk to the Dutch bank's fund of funds operations.

Within the U.K., **Schroders** acquired fund of funds firm **NewFinance Capital** for $101 million, with additional incentives that could raise the price another $41 million. The deal is in line with Schroders' strategy of making tack-on acquisitions and boosting its menu of alternative (and higher-margin) products. Among the high-profile buyers within the U.S. was **Morgan Stanley**, which bought Boston's **Oxhead Capital Management** (AUM: $100 million), a 3-year-old firm hedge fund begun by former executives from **Putnam Investments**. Since assuming the CEO post at Morgan Stanley last year, John Mack has made alternative investments a higher priority as he seeks to strengthen the firm's asset management division. This has included launching new products and hiring new staff. ❖

EUROPE

THERE WAS SOME BORDER HOPPING TAKING PLACE IN EUROPE OUTSIDE THE ALTERNATIVE SECTORS. MELLON FINANCIAL CONTINUED TO BUILD ITS EUROPEAN PRESENCE WITH THE PURCHASE OF WALTER SCOTT & PARTNERS (AUM: $27 BILLION), AN EDINBURGH-BASED INSTITUTIONAL FIRM. WALTER SCOTT HAS ENJOYED RAPID GROWTH IN RECENT YEARS WHILE EARNING A REPUTATION FOR GOOD PERFORMANCE BY MAKING BIG BETS ON INDIVIDUAL STOCKS. Within the last 10 years, Mellon's international AUM has grown to $100 billion from just $2 billion to account for 11% of total AUM. In line with Mellon's "multi-boutique asset management model," Walter Scott will remain an independent subsidiary of Mellon.

In a second major deal with a transatlantic element, **Nationwide Mutual Insurance** unloaded the international operations of its London-based asset manager, **Gartmore Investment Management**, while retaining the smaller U.S. fund business so "it can "focus on the more rapidly growing U.S. market … where our competitive business is strong." The buyer was San Francisco's Hellman & Friedman Advisors (Gartmore managers also took a stake in their firm). Gartmore's international business has $45 billion in AUM, largely managed for institutions, including $7.4 billion in hedge funds.

Nationwide acquired Gartmore in 2000 in a bid to build a global footprint, and–in that particularly robust year for deals–the Ohio-based insurer paid 57 times EBITDA, or $1.6 billion. Although pricing on the sale was not disclosed, observers placed it at around $900 million.

EFG International, the fast-growing Swiss private bank, expanded its presence in Monaco with the acquisition of a small private bank, **Banque Monegasque de Gestion**, which it plans to merge with its existing local subsidiary. BMG, which serves clients in Southern Europe and has $1.1 billion in AUM, had been owned by UniCredito Italiano. Within Germany, Deutsche Bank strengthened its private client business through the acquisition of **Berliner Bank** for $860 million. Berliner, which serves 307,000 private clients and 13,000 business clients, was part of **Bankgesellschaft Berlin**, a publicly owned bank in the midst of privatization. For Deutsche Bank, the deal extends its presence both in Berlin and the private client business.

London's **Rathbone Brothers** acquired **Dexia**'s U.K. private client and institutional business, consisting of $1 billion in AUM, for as much as $26 million. Prior to the deal, Rathbone had approximately $18 billion in AUM. In two all-U.K. deals, London's **Syndicate Asset Management** bought two fund managers: **Savoy Asset Management** (AUM: $1.8 billion) for $29 million and **LAinvest Ltd.** (AUM: $110 million). Since being listed on the London Stock Exchange's small cap Alternative Investment Market in 2005, SAM has made five acquisitions, in line with its strategy of building a portfolio of growing, small-to-mid-size affiliated asset management firms. ❖

SECURITIES

THE BROKERAGE INDUSTRY WITNESSED SEVERAL DEALS IN THE FIRST HALF, INCLUDING MERRILL LYNCH'S ACQUISITION OF WAVE SECURITIES, AN INTRODUCING BROKER THAT WAS A SUBSIDIARY OF ELECTRONIC TRADING NETWORK ARCHIPELAGO HOLDINGS. Merrill said the acquisition would provide "a valuable complement to our industry-leading equity franchise." The sale was mandated by the SEC as part of Archipelago's 2005 purchase of the Pacific Exchange. As part of the same agreement, during the first half of 2006 the firm also sold its **Archipelago Brokerage Services** to **Order Execution Services Holdings** of New Jersey. ABS is an introducing broker that provides broker-dealer access to NYSE Arca, an online exchange owned by the **New York Stock Exchange Group**. Formerly, the exchange had been known as Arca Ex and was owned by Archipelago, which merged with the NYSE in March of this year.

UBS paid $500 million for Piper Jaffray Companies' brokerage unit, which brings the Swiss firm more than 800 advisors in 17 U.S. states, serving 190,000 clients with assets of $52 billion.

Knight Capital Group also acquired an electronic trading platform, in the spot foreign exchange market, Hotspot FX, Inc., for $78 million. Started up in 2000, New Jersey-based Hotspot executes 5,000 to 10,000 spot trades a day for hedge funds, commodity trading advisors and corporate treasurers, among others. "The addition of Hotspot advances Knight's ambition to become a virtual exchange for high-quality trade executions across multiple asset classes," said Thomas Joyce, chairman and CEO of Knight.

UBS paid $500 million for **Piper Jaffray Companies**' brokerage unit, which brings the Swiss firm more than 800 advisors in 17 U.S. states, serving 190,000 clients with assets of $52 billion. In a teaming of West Coast and Midwest firms with a community bank focus, **Howe Barnes Investments** of Chicago and **Hoefer & Arnett** of San Francisco agreed to merge their brokerage and financial services operations. The two firms combined will be market makers in more than 500 stocks traded on Nasdaq, the OTC Bulletin Board and Pink Sheets. ❖