The Berkshire Capital Newsletter

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MERGER MANIA CONTINUES

Buoyed by the $4 trillion worth of transactions announced in 2006, deal-makers entered the new year in a robust frame of mind and appeared on track to set new M&A records in 2007, with private equity firms remaining significant contributors to the action. Worldwide, a first-half record of $2.7 trillion in deals was announced, according to Thomson Financial, a stunning 62% jump from 2006. The U.S. and Europe were neck-and-neck on transaction value, at more than $1 trillion each, while cross border deals accounted for a record 48% of value.

Private equity players accounted for 24% of transaction value worldwide and 36% in the U.S., including **Kohlberg Kravis Roberts'** record $44 billion bid for utility group TXU. With Private Equity Intelligence projecting the industry will pull in as much as $500 billion this year on top of the $400-plus billion raised in 2006 (not all of which was employed), the industry has a stunning amount of capital to employ when leverage is factored in.

On the heels of its record-breaking year for transactions in 2006, the asset management industry remained busy in the first half, with one mega-deal involving **Nuveen Investments** and a number of New York-based heavyweights active in the market, including **Citigroup**, **Lehman Brothers**, **Merrill Lynch** and **Morgan Stanley**. They were joined by such familiar buyers as **City National Corp.**, **Federated Investors**, **UBS** and **Wilmington Trust**, along with aggressive new players like **Focus Financial Partners** of New York and **Syndicate Asset Management** of London. **BlackRock Inc.**, fresh off its blockbuster deal with Merrill Lynch, acquired a hedge fund of funds manager, **Quellos Group**, for a price that could reach $1.7 billion, just one of several notable deals involving hedge funds or funds of funds.

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But the largest deal in the first half involved the $5.8 billion buyout of Nuveen by an investor group led by Chicago-based private equity firm **Madison Dearborn Partners**. It was also the largest asset management deal to date by a private equity firm. There were several other private equity deals of note. **TA Associates**, with eight investments in asset managers prior to 2007, added two more in the first half, backing the buyout at **Jupiter Asset Management** and taking a stake in a hedge fund of funds business, **K2 Advisors**. **Northern Lights Ventures** of Washington backed the buyout at **ABN**-owned **Tamro Capital Partners**.

There were two billion-dollar-plus deals in the first half in Europe: the buyout of Jupiter and a regulatory-driven transaction in which **Intesa Sanpaolo** acquired **Credit Agricole**'s interest in their Italian asset management joint venture. Among large, diversified financial firms, Merrill Lynch made two acquisitions of companies that included wealth managers while Morgan Stanley and Lehman Brothers continued to expand their hedge fund capabilities via minority share purchases. Indeed, hedge funds were popular targets for large and diversified financial firms worldwide, with minority investments remaining the favored strategy.

The largest proposed deal in the first half slashed another hole in the protectionist armor of Europe's banking industry, as Barclays first made a $90 billion bid for ABN Amro, a friendly offer that was quickly challenged by a consortium of three European banks (Banco Santander, Fortis and Royal Bank of Scotland).

The emerging markets of China, India and South Korea beckoned global financial firms as well, with India playing host to four fund deals as the nation's economy zipped along at a 9.1% growth clip in the first quarter (9.4% for the fiscal year ended March 31). Aside from the Nuveen deal, the other key mutual fund transaction involved Thomas Marsico's buyout of his **Marsico Capital Management** from **Bank of America**. The institutional sector stayed active, as **Aberdeen Asset Management** and **Deutsche Bank** each concluded their second deal in three years and **Piper Jaffray** entered the asset management industry via the acquisition of an institutional asset manager.

Amid generally robust securities markets worldwide for most of the first half, publicly traded U.S. asset managers recorded solid results, with many posting double-digit gains in profits and AUM, including **T. Rowe Price**, which in the first quarter delivered 22% growth in earnings and a 19% gain in AUM. At **Franklin Resources**, net income more than doubled during its fiscal second-quarter, benefiting from the strength of its international funds and fund inflows, and Nuveen Investments recorded a 17% increase in first-quarter profit. As a group, the stocks of asset managers within the Dow Jones U.S. Total Market Index rose more than 12% in the first half of the year, outpacing the S&P 500 Index by six percentage points and the broader financial industry by a yawning 14-plus points.

Europe Steams Ahead...

The largest proposed deal in the first half slashed another hole in the protectionist armor of Europe's banking industry, as **Barclays** first made a $90 billion bid for **ABN Amro**, a friendly offer that was quickly challenged by a consortium of three European banks (**Banco Santander**, **Fortis** and **Royal Bank of Scotland**). While Barclays is content to swallow ABN whole, more or less, the consortium aims to carve up the venerable Dutch institution, which operates in more than 50 countries.

Although Dutch regulators initially appeared to be leaning against a breakup of the bank, the drama–which also engaged the hedge funds investing in the various parties–continued to play out as we went to press, with no clear winner. Regardless of who gains control of ABN, the sale will mark the third major European cross border banking deal in as many years and place additional pressure on banks throughout the Continent to respond in kind, including within the domestic markets.

UniCredit, which two years ago took part in one of those cross border deals when it acquired Germany's HVB, continued the consolidation trend in its home market of Italy via the purchase of **Capitalia** for $30 billion, a deal driven in part by events in the Netherlands.

Capitalia counts ABN among its shareholders and had concerns about its own future once that takeover battle ended. The deal will create the second-largest European bank (by market capitalization) after **HSBC** and the fifth largest in the world. UniCredit had also been in talks this year with **Societe Generale** of France, but the negotiations stalled, due in part to political concerns. SocGen was itself reported to be reviewing a bid for **BNP Paribas** in what would amount to a merger of France's two largest banks.

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During the first quarter, European Union financial ministers sought to facilitate additional cross border tie-ups by proposing new rules limiting the power of national regulators to stymie bank deals. The proposed rules limit review time for mergers to 60 days and standardize regulations across borders. In a related vein, EU finance ministers also liberalized rules regarding cross border electronic payments.

The activity in the banking sector and the torrid M&A market in Europe underline a more vigorous spirit on the Continent. In the first quarter of 2007, GDP growth in the eurozone was a strong 3.1%, outpacing the U.S. economy for the second straight quarter. The first-quarter gains come on top of 2.7% growth in 2006, nearly twice the level of 2005 and the euro area's best economic showing since 2000. Some 2 million jobs were created in the euro area in 2006, and by the start of 2007 unemployment stood at its lowest level in 14 years (7.4%). Growth is being driven by exports as well as strong domestic demand.

Private Equity Goes Public ...

As the private equity industry's clout has grown in recent years, key players have displayed a not-so-subtle contempt for public companies, weighed down as they are by the short-term demands of investors, not to mention the regulatory requirements of Sarbanes-Oxley. There was no shortage of ironic comment, then, when **Blackstone Group** announced a $4 billion initial public offering, equivalent to a 10% shareholding, the first such action by a major private equity firm. (Subsequently, the share offering nearly doubled, after the Chinese government made a $3 billion investment.)

While the pundits may have enjoyed taking jabs at Blackstone, which began trading on the New York Stock Exchange (NYSE) in June, the reaction among many rivals, investors and potential targets must have bordered on awe once they combed through the prospectus. Between 2003 and 2006, Blackstone's net income and AUM jumped 141% and 157% to $2.3 billion and $70 billion, respectively.

Blackstone's action follows the listing for New York private equity and hedge fund manager **Fortress Group**, which began trading on the NYSE in February. The company's shares, issued at $18.50, doubled on the first day of trading, but had settled in the mid-20s by early June. **Och-Ziff Capital Management**, a New York-based institutional alternative asset management firm, filed an IPO in early July to sell up to $2 billion in shares. The following day, legendary private equity firm Kohlberg Kravis Roberts also announced it filed for an offering, saying it expects to raise as much as $1.25 billion and use the proceeds to grow its business.

Publicly traded U.K. hedge fund giant **Man Group** indicated its intention to list a single fund (**Man Dual Absolute Return Fund**) on the NYSE. Significantly, the fund will reportedly include a minimum investment of just $2,000, opening the hedge fund universe to small investors. Within Europe, with looser regulations on hedge funds, several individual funds have already been floated, including last year's $2.2 billion listing of **Marshall Wace**'s **MWTops** fund. In the first quarter of 2007, seven hedge funds were listed in Europe raising a total of $1.7 billion.

Apollo Management of New York was considering a private placement that would allow its owners to realize a payday while avoiding the oversight dictated by a public listing. Meanwhile, **Goldman Sachs** is providing another option for alternative investment firms through the creation of a private market open only to institutions and affluent investors, "GS Tradable Unregistered Equity OTC Market." That market has already attracted the interest of **Oaktree Capital Management** of Los Angeles, a 12-year-old private equity firm with $43 billion in AUM; it plans to raise $700 million through a placement on the new exchange.

... And Teams Up with Government

Blackstone itself welcomed a new and unexpected investor in May: the government of China, which followed through on earlier pronouncements that it would seek alternatives to government bonds for the $1.2 trillion of foreign exchange reserves it has amassed. Beijing, generally content to recycle its greenbacks for T-bills, made a $3 billion non-voting investment in the private equity firm, through a recently formed state investment corporation. Perhaps not coincidentally, the announcement came just prior to meetings between the U.S. and China, at which the massive trade gap was a key sticking point.

Given the tight connection between politics and business in the Middle Kingdom, the deal is expected to gain Blackstone access to high-flying Chinese companies being primed to go public, a potentially profitable relationship for all involved. Across several time zones in Washington, it doubtless won't hurt Beijing to be tied to an American firm whose deep pockets hold the potential for access inside the halls of Congress, as the private equity industry picks up its lobbying efforts in tandem with its higher profile.

Just prior to the Blackstone announcement, Beijing took another step toward liberalizing its management of the nation's stash by easing controls on individual investments in overseas equity funds, made through the Qualified Domestic Institutional Investors Program (QDII). Soon after, reports surfaced that **Mellon Financial** was planning to introduce a new international fund with **Southern Fund Management**, one of China's largest fund managers.

Meantime, by the end of 2006, China's mutual fund industry had passed a new threshold, topping the $100 billion mark for AUM, about double the level in 2005, according to research firm Z-Ben Advisors. The jump was the result of a buoyant domestic stock market combined with record inflows of $17 billion. Although the industry remains just one-sixth the size of Hong Kong's, China's estimated $2 trillion pool of savings is the more salient number, while the nation's rapidly growing wealth and tattered public safety net point to increased demand for such investments. McKinsey & Co. recently projected that AUM in the nation's fund industry could hit $1.4 trillion by 2016, for an annual average growth rate of 25%. At present, there are some 30 Chinese mutual fund companies that are either joint ventures or involve equity stakes held by non-Chinese firms. ❖

Wealth Management

The wealth sector witnessed two relatively significant deals and a host of smaller ones in the first half, with the two largest concluded by firms that pursue an affiliate-based business model. Through its Chicago-based asset manager, Convergent Capital Management, City National Corp. added a 10th investment management affiliate with the purchase of Lydian Wealth Management. Based in Maryland, Lydian incorporated as a single-family office in 1994 and now boasts one of the most affluent client bases in the industry (the average client has $40 million under management). Since 2003, Lydian's AUM has dou-

BLED TO $7.3 BILLION. CITY NATIONAL, WITH AUM OF $28 BILLION PRIOR TO THE DEAL, SAID IT PLANS TO OPEN AN OFFICE IN LOS ANGELES WITH LYDIAN, WHICH CHANGED ITS NAME TO CONVERGENT WEALTH ADVISORS. STEVE LOCKSHIN, CEO OF LYDIAN, SAID THE LINK PROVIDES HIS FIRM WITH THE RESOURCES IT NEEDS TO EXPAND TO NEW STATES AND "ACHIEVE OUR GOAL OF BUILDING AN EXCEPTIONAL WEALTH ADVISORY FIRM WITH A NATIONAL BRAND."

Focus Financial Partners, organized just two years ago with backing from private equity shop **Summit Partners**, continued to make its presence felt with the purchase of three firms operating as wealth managers in whole or part, in the process tripling its AUM to $15 billion and bringing to nine its portfolio of affiliates. The largest deal involved **Buckingham Family of Financial Services** (AUM: $7.7 billion), a 13-year-old St. Louis firm with both a wealth management business and a separate turnkey arm that serves 100 clients. In addition, the firm acquired **Sentinel Benefits Group** of Massachusetts, an employee benefits firm that also manages $2.3 billion in assets; and **Quantum Capital Management** of California. Focus has set an aggressive goal of building a national footprint by taking stakes in as many as 50 companies in the years ahead, while leaving local management in place and providing the benefits of scale.

In a deal merging scale with investment savvy, Merrill Lynch acquired a "non-controlling" stake in Sterling Stamos Capital Management, a 5-year-old firm run by Peter Stamos, the onetime chief of staff for former Sen. Bill Bradley.

One of the sector's most-established players, **Wilmington Trust**, acquired Boston-based **Bingham Legg Advisers** (AUM: $1.5 billion), an 8-year-old firm specializing in tax-sensitive investment strategies. The deal provides Wilmington with a presence in the fifth-largest high-net-worth market in the U.S. while providing Bingham and its clients the benefits of a larger parent. Bingham was formed in a joint venture between what is now a leading international law firm, Bingham McCutcheon, and **Legg Mason**.

In a deal merging scale with investment savvy, **Merrill Lynch** acquired a "non-controlling" stake in **Sterling Stamos Capital Management**, a 5-year-old firm run by Peter Stamos, the onetime chief of staff for former Sen. Bill Bradley. With $4 billion in AUM, the firm invests in alternative and traditional assets for wealthy investors and institutions. "We will work with Sterling Stamos to grow their successful business by using Merrill Lynch's global resources," said Merrill. In a second high-profile deal with a wealth management component, Merrill acquired **First Republic Bank** of San Francisco for $1.8 billion. First Republic has a total of $16.4 billion in AUM or assets under administration. Robert McCann, president of Merrill's Global Private Client business, said the acquisition "will enable us to enhance the growth of our private client organization by leveraging First Republic's very successful model and strategy."

In a deal reflecting the efforts of smaller, traditional banks to expand their services and sources of income, **AmeriServe Financial** acquired a fellow Pennsylvanian firm, **West Chester Capital Advisors**. Formed in 1994, West Chester offers a large cap product to private clients and institutions and has $215 million in AUM. Allan Dennison, president and CEO of AmeriServe, said the deal will "broaden [AmeriServe's] fee-based product options" and extend its presence into a "lucrative geographic market". Another publicly traded Pennsylvania bank, **Susquehanna Bancshares**, acquired **Widmann, Siff & Co.** in a bid to strengthen its existing wealth business. Widmann is an established firm in the Keystone State that manages more than $300 million in AUM for family trusts and institutions. ❖

Mutual Funds

After a couple of years defined by mega-mergers, including Power Corporation of Canada's $4 billion acquisition of Putnam Investments at the end of 2006, the mutual fund industry racked up one more in the first half, as Madison Dearborn Partners led a group of investors acquiring Nuveen Investments for $5.8 billion (plus the assumption of $550 million in debt). The deal set a new threshold for the buyout of an asset management firm and was another indicator of the increasing interest in the industry among private equity firms. Two years ago, St. Paul Travelers Cos. sold its majority stake in Nuveen, which manages $170 billion in assets. Madison paid a premium of 20% over Nuveen's closing share price on June 19.

Timothy Schwertfeger, chairman and CEO of Nuveen, called the deal a "compelling value for our shareholders" and said it will allow the firm to accelerate its investment capabilities, products and distribution channels. For Madison Dearborn, whose diversified portfolio of investments includes several other financial services firms (such as CapitalSource and PayPal), the Nuveen investment marks its entry into the asset management business.

> **A second major deal involved the buyout of Marsico Capital Management from Bank of America, by founder Thomas Marsico, for an undisclosed price.**

A second major deal involved the buyout of **Marsico Capital Management** from **Bank of America**, by founder Thomas Marsico, for an undisclosed price. BoA acquired Marsico in 1998 and 2000 for a total of $1.1 billion, and has watched AUM at the Denver-based firm grow nearly sixfold since 2000 to $94 billion. Marsico said the low cost of borrowing facilitated the buyback, but told Reuters that the "driving force" was his desire to "get equity to everyone in the firm." Marsico will continue to act as subadvisor to BoA's **Columbia** fund family. At the end of June, Topeka, Kansas-based **Security Benefit Group** agreed to acquire **Rydex Investments**, a Maryland based firm for an undisclosed amount. The combined firms are expected to represent roughly $35 billion in AUM.

Other U.S. mutual fund transactions fell into the "tack-on" category. These included the acquisition by **MFS Investment Management** of Bank of America's **Colonial Funds** business, consisting of seven closed-end fixed-income funds with $1.2 billion in AUM, the largest of which is the **Colonial High Income Municipal Trust** (AUM: $209 million). The funds were advised by BoA's asset management arm, **Columbia Management Advisers** of Boston, and the sale completes the bank's divestiture of its closed-end fund portfolio. In December 2006, BoA sold its two **Liberty All Star** closed-end equity funds to **ALPS Advisers** of Denver.

MFS chief executive Robert Manning, whose firm manages $190 billion in assets, opined early in the year that consolidation among medium-sized firms was in fact a "way off". He told the Financial Times that companies with more than $150 billion in AUM were "less likely to consolidate because they can grow organically, sustain their margin and afford to pay the talent in the organization to generate the alpha". Deals, he said, would play out among those firms with less than $100 billion in AUM. Last year, MFS parent **Sun Life Financial** briefly put the company up for sale.

Federated Investors continued to extend its portfolio beyond money market funds via acquisition, purchasing **Rochdale Investment Management**'s Atlas Portfolio, a $321-million fund investing in international stocks; it is the seventh fund acquisition Federated has made since 2005. Federated will transfer the assets to the newly named **Federated InterContinental Fund**, which will continue to be run by the same management team. Rochdale, a wealth manager based in New York, has $2.5 billion in AUM.

Asia's emerging markets remained robust, with a number of major asset managers cutting deals, including several in India that underline the keen interest in that nation. In the largest, **UBS** paid $120 million for **Standard Chartered Bank**'s Indian mutual fund operation (AUM: $3.1 billion), the ninth-largest fund manager in the market. John Fraser, chairman and CEO of UBS Global Asset Management, called the acquisition a "milestone in our plan to build a major presence in India's growing funds management industry" and said it "demonstrates UBS's broader commitment to this important market". (Separately, UBS and StanChart announced their intention to form a strategic alliance for fund distribution in Asia, the Middle East and Africa.)

ING was also at work in South Korea, where it acquired Morgan Stanley's asset manager, Landmark Investment Management Co. (AUM: $6 billion), in the process nearly doubling its fund business in that county.

Another European asset manager, **Robeco**, paid $26 million for 49% of a fund joint venture with **Canara Bank**, while **Unicredit**'s **Pioneer Investments** and **Bank of Baroda** signed a memorandum of understanding to form a joint venture fund company. Pioneer left the Indian market five years ago after a disappointing experience with a local partner. **ING Vysya Bank** sold its 39% stake in **ING Vysya Mutual Fund** to **Hathway Investments**, controlled by Indian conglomerate **Rajan Raheja Group**. ING, which has an existing insurance joint venture with Rajan, retained a 43% share in the fund company. Franklin Resources paid $90 million for the 25% it did not own in two Indian joint ventures, with total AUM of $5.5 billion. The Indian mutual fund market accounts for around $74 billion in AUM, but has been growing in recent years by an annual average rate of 26%.

ING was also at work in South Korea, where it acquired **Morgan Stanley**'s asset manager, **Landmark Investment Management Co.** (AUM: $6 billion), in the process nearly doubling its fund business in that county. ING, with aggressive plans for expansion in Asia, last year acquired **ABN Amro**'s domestic fund business in Taiwan. **Goldman Sachs** acquired fund manager **Macquarie-IMM** (AUM: $11 billion), majority-owned by Australia's **Macquarie Bank**, while **JPMorgan Chase** received a license to set up a wholly owned local asset manager. Korea's strong economic growth and the introduction of a mandatory corporate pension plan have drawn 15 international financial firms to participate in the asset management business.

In China, several European insurers took stakes in asset management joint ventures. Italy's **Eurizon Financial Group** purchased a 49% share in **Penghua Fund Management**, with $3.5 billion in AUM. The deal came soon after Eurizon's purchase of a minority stake in Chinese life insurer Union Life. Dutch insurer **Aegon** took a 49% stake in a joint venture with China's **Industrial Securities**, one of the nation's leading securities firms. The company, Industrial Fund Management, has $2.3 billion in AUM. Meanwhile, **Aviva** indicated that it was seeking to establish a joint venture fund company through its **Morley** asset management unit. The U.K. company already has an insurance joint venture in China with offices in 15 cities. **Nikko Asset Management** of Japan acquired via two separate investments a 40% stake in **Rongtong Fund Management**, a mid-size fund manager based in the booming southern Chinese city of Shenzhen. ❖

INSTITUTIONAL

THE INSTITUTIONAL SECTOR REMAINED A CENTER OF DEAL-MAKING IN THE FIRST HALF, CONTINUING THE MOMENTUM FROM 2006, WHEN NEARLY $21 BILLION IN INSTITUTIONAL TRANSACTIONS WAS RECORDED. A LIST OF BUYERS DOMINATED BY U.S. AND U.K. FIRMS INCLUDED ABERDEEN ASSET MANAGEMENT, PIPER JAFFRAY AND WACHOVIA. THE GROWING DEMAND AMONG INSTITUTIONS FOR MORE AGGRESSIVE FIXED INCOME PRODUCTS WAS EVIDENT IN MANY OF THE DEALS, AS BUYERS TARGETED SUCH SPECIALISTS FOR ACQUISITION.

Evergreen Investments, Wachovia's asset management arm, acquired a 70% interest in **European Credit Management** (AUM: $26 billion), a fast-growing London-based firm that is one of the largest fixed income credit specialists in Europe. Wachovia, which had been ECM's largest client, said the deal "is in line with our strategic plan to build additional expertise in asset management by strengthening Evergreen's investment offerings and global distribution platform". For ECM, started in 1999 by former **Merrill Lynch** executives, the deal provides distribution muscle, including within the U.S.

Deerfield Triac Capital Corp., a Chicago-based REIT, cut a deal with its majority shareholder, **Triac Companies**, to acquire asset manager **Deerfield & Co.** (AUM: $13.7 billion), which has operated as DTC's external money manager. DTC paid $290 million in stock and shares for control of Deerfield & Co., a specialist in credit and structured investment solutions and products. DTC, which went public in 2005 and over the last five years has enjoyed average annual growth of 16% in AUM, said the deal allows it to "internalize its investment manager" and provides it with assets with potentially higher yields than real estate. Triac, the holding company for the Arby's fast-food chain, is controlled by colorful billionaire Nelson Peltz, who is expected to sell or spin off Deerfield Triac as part of a corporate restructuring.

Piper Jaffray entered the asset management industry via a $66 million acquisition of **Fiduciary Asset Management**, a 13-year-old St. Louis firm with $9 billion in AUM, primarily in equity vehicles. In 2006, Piper Jaffray sold its brokerage unit to **UBS** for $750 million as it focused on becoming a leading middle market investment bank. Another Midwest firm, Milwaukee-based **Marshall & Ilsley**, paid $21 million for Chicago's **North Star Financial Corp.**, a 10-year-old firm with $1.6 billion in assets under administration. M&I will wrap the firm into its existing wealth management unit, which serves institutions and individuals.

In its second significant cross border deal with **Deutsche Bank** in three years, Aberdeen Asset Management of Scotland purchased **Deutsche Australia Ltd.** for as much as $120 million. Aberdeen gains $12 billion in AUM, enhances its existing business in the attractive Australian asset management market, and strengthens its "global fixed income asset management platform, by reuniting Deutsche's Sydney-based team" with the large London and Philadelphia businesses that Aberdeen acquired from Deutsche in 2005.

For its part, Deutsche said the deal allows it to narrow its focus in Australia on a distribution platform that plays off its strengths in alternative investments and global products, as opposed to running a "domestic manufacturing platform". Australia, with the fourth-largest mutual fund market in the world and a large mandatory retirement savings program, has drawn the interest of many international asset managers.

In a transatlantic deal, management at **Tamro Capital Partners** of the U.S. bought out **ABN Amro Holdings**, backed by private equity firm **Northern Lights Ventures**. Founded in 2000, Tamro Capital manages $750 million in assets, primarily in several small cap equity funds, and will maintain a distribution partnership and mutual fund subadvisory agreement with ABN. Northern Lights, based in the state of Washington, specializes in investments in asset managers. ❖

Alternative

The hedge fund industry came roaring out of the blocks in the first quarter, registering a record inflow of $60 billion, nearly half the amount taken in during all of 2006, according to Hedge Fund Research. The industry now manages some $1.6 trillion in assets. It also continued to draw the interest of some of the world's largest financial firms, including Citigroup, which through its acquisition of hedge fund Old Lane Partners (aum: $4.5 billion) indicated its intention to become a force in alternatives.

The deal, for a price that reportedly could reach $800 million, also underlined the premium accorded individual managers such as Old Lane owner Vikram Pandit, who was tapped to take over the bank's alternative investments unit. That unit had been operating without a chief executive since the departure of Michael Carpenter one year ago. Old Lane was only launched in 2006 by Pandit and other high-profile alumni of **Morgan Stanley**; it runs a global, multi-strategy hedge fund and a private equity fund. "This transaction is an investment as much as it is an acquisition … in world-class talent at Old Lane," said Charles Prince, chairman and CEO of Citigroup.

BlackRock struck a deal with **Quellos Group**, a Seattle-based hedge fund of funds manager founded in 1994 that manages $20 billion in assets. The upfront pricing included a mix of cash and stock totaling $750 million, with a potential earnout of another $970 million over a 3 1/2-year period. Quellos founder and CEO Jeffrey Greenstein, who plans to retire when the deal closes, said "we are convinced that partnering with one of the world's leading asset managers will afford significant strategic benefits for our clients and great opportunities for our employees." BlackRock said it would wrap the Quellos business into a "unified platform" combining its hedge and private equity fund of funds. The acquisition catapults BlackRock into the top-10 rankings for fund of funds manager worldwide, with more than $25 billion in AUM.

Another New York financial power, **Merrill Lynch**, acquired close to 20% of **GSO Capital Partners**, a 2-year-old hybrid with $8 billion in AUM that manages hedge funds and provides financing for private equity deals. The transaction marks Merrill's second investment in a hedge fund since 2006, but given GSO's role in the private equity industry, this relationship brings an added benefit: the potential for access to M&A advisory work as well as the financing required to get deals completed. In another sign of the increasing links between private equity and hedge funds, **TA Associates** of Boston acquired **K2 Advisors**, a fund of funds shop based in Connecticut with $5.5 billion in AUM. TA said it had been seeking an "institutional-quality" fund of funds firm in which to invest for "a long time". As part of the deal, K2 said it would reinvest some $100 million of the proceeds into its business.

Lehman Brothers continued its strategy of taking minority shares in hedge funds, as it made two more investments in the first quarter, including the purchase of a 20% stake in New York's **D.E. Shaw**, with $30 billion in AUM one of the world's major hedge funds. Lehman now holds stakes in five hedge funds. Although price wasn't disclosed on the Shaw deal, observers believe it was well above $1 billion, based on valuations for similar transactions. Started up in 1988 by David Shaw, a faculty member in Columbia University's computer

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science department, the firm made its mark by using complex "quant" models to forge a market-neutral strategy in global equities. In recent years, it has added long-only strategies to capture more institutional business, and in 2006 allowed for moderate short-selling in those funds. Lehman also acquired 20% of **Spinnaker Capital Group**, an 8-year-old London group with $5 billion in AUM and a specialty in emerging market bonds.

Morgan Stanley, which in 2006 made a grand entrance on the hedge fund scene with four investments on both sides of the Atlantic, this year looked to Asia, where it took a "significant" minority share in a Hong Kong-based start-up, **Abax Global Capital Ltd.**, being run by former executives from hedge fund **Citadel Investment Group** and Merrill Lynch. Abax plans to invest in China, Hong Kong and Taiwan.

Within Europe, executives at **Julius Baer**'s fixed income hedge fund bought out that business, which has $9 billion in AUM. The company, subsequently renamed **Augustus Asset Managers**, will maintain a subadvisory relationship with its former parent, which kept a 10% share. Julius Baer said it cut its stake because "it did not make sense" to integrate "this quite distinct business" into **GAM**, the London-based alternative asset manager acquired in 2005.

In another European deal, **BNP Paribas** took a minority stake in a small Parisian hedge fund manager, **Finaltis** (AUM: $450 million), and committed to investing in the firm's hedge funds. Finaltis was founded in 2001 with backing from **Robeco**, but bought out the Dutch firm's minority stake four years ago. Late last year, BNP formed a 65%-owned hedge fund, **CooperNeff Alternative Managers**, as part of an effort to enhance its alternative offerings. BNP also acquired a stake in **National Bank of Canada**'s hedge fund managed account specialist, **Innocap Investment Management**, as part of a joint venture agreement between the two companies. Innocap, an 11-year-old firm that advises more than $2 billion in hedge fund mandates, touts its risk management capabilities. NBC said the link with BNP brings "Innocap's world-class offering to the world-wide market".

In the real estate advisory arena, **Stockland Corp. Ltd.**, Australia's second-largest property trust, expanded into the U.K. through the $330 million acquisition of **Halladale Group**, a publicly traded property development and investment company with $1.6 billion of AUM. It marked the firm's first acquisition outside Australia and fit its strategy of acquiring a "strong UK operating business rather than just property assets". In Japan, asset manager and REIT **Apamanshop Holdings Co.** acquired **Parex Inc.**, a real estate advisor. ❖

Europe

European deals in the first half were led by one of the largest-ever buyouts in the industry, with executives at Jupiter Asset Management (AUM: $38 billion) purchasing the firm from Commerzbank for some $1.3 billion. The management team, led by Jupiter chief executive Edward Bonham Carter, took a majority stake in the firm, backed by established private equity firm TA Associates. TA holds stakes in nine other asset managers, including Affiliated Managers Group and AIM. Commerzbank, which last year announced that it was considering a public offering for Jupiter, was reportedly stymied in that effort by objections from Jupiter management. The German bank said the sale was in line with its strategy of focusing on "core markets".

A British firm that went public in 2005, **Syndicate Asset Management**, scooped up two additional companies in the first half, both based in the Channel Islands, in a bid to build its institutional business. The larger deal involved the $35 million purchase of **EPIC Investment Partners** (AUM: $5 billion), a holding company for a group of institutional fixed income specialists. SAM also purchased another fixed income fund manager with $1 billion in AUM, **Insight Guernsey**. The two deals, which doubled SAM's AUM to $12 billion, are in line with the company's strategy of providing "a full spectrum of fund management services" and bring to eight the number of acquisitions it has made since 2005.

Barclays Bank also tapped the offshore market in acquiring **Walbrook Group Ltd.**, a fiduciary services company in the Channel Islands serving private clients and corporate customers, with $17 billion in client assets. Barclays plans to integrate the company into its offshore wealth business. **Towry Law** acquired a fellow British firm, **Baker Tilly Financial Services**, which has 20,000 private clients, for a reported $19 million. Towry was itself acquired last year for $74 million by **John Scott & Partners** of the U.K., a high-net-worth, financial planning and employee benefits specialist.

Elsewhere in Europe, **BNP Paribas** acquired the private banking business of **Kas Bank** of the Netherlands, a deal that adds $1 billion to the $2.4 billion the French bank already managed in that market through its subsidiary, **Nachenius Tjeenk**. In a bid to strengthen its position in the Nordic countries, Icelandic financial firm **Glitner Bank** acquired 68% of **FIM Group**, a leading asset manager in Finland with $4.7 billion in AUM.

In another cross border deal in Europe, **Intesa Sanpaolo** and **Credit Agricole** agreed this year to unwind their Italian asset management joint venture, **CAAM sgr** (AUM: $132 billion), with Intesa acquiring the French bank's 65% interest for $1.1 billion. In concluding the original deal with then-Banca Intesa just two years earlier, CA merged its small Italian asset manager with BI subsidiary Nextra Investment Management, the second-largest asset manager in Italy. The deal was part of CA's broader effort to expand its asset management business outside France. CA also held an 18% share in Banca Intesa. But following the high-profile merger last year between Banca Intesa and Sanpaolo IMI, the Italian Competition Authority mandated the dissolution of their short-lived asset management joint venture. ❖

Securities

In an industry where scale has become critical to success, Wachovia's $7 billion purchase of A.G. Edwards in May swept another regional broker off the map while placing additional pressure on the small number of independent players left to hook up with larger partners. For Wachovia, the acquisition of the St. Louis-based broker was significant, adding 6,600 financial advisors to its roster of 8,200, a total that places Wachovia just behind Merrill Lynch as the No. 2 broker in the U.S. (a claim disputed by Citigroup's Smith Barney unit based on non-public data). A.G. Edwards also adds $374 billion in client assets, bringing Wachovia's combined total to $1.1 trillion, behind only Merrill and Smith Barney.

> **Separately, hedge funds JANA Partners and SAC Capital have been pressing online brokerage TD Ameritrade to merge with E*Trade or Charles Schwab.**

Referring to the consolidation trend, David Carroll, president of Wachovia's Capital Management Group, said A.G. Edwards provided "a rare chance to solidify our leadership in the industry with the scope and resources required to be the firm of choice for clients and for quality financial advisors". The North Carolina bank, which has acquired seven brokerages since 1998, paid a rich 21 times 2007 projected earnings for its latest purchase. In making the deal, Wachovia hopes to switch many of its new customers to more profitable managed accounts while pitching its broader menu of banking services.

The deal immediately led to speculation about the next regional brokerage target, with **Raymond James Financial** an oft-mentioned possibility. Separately, hedge funds **JANA Partners** and **SAC Capital** have been pressing online brokerage **TD Ameritrade** to merge with

E*Trade or **Charles Schwab**. Meanwhile, **Stifel Financial Corp.** of St. Louis scooped up **Ryan Beck & Co.** of New Jersey, in a deal that creates the 12th-largest U.S. brokerage and extends Stifel's footprint into the Mid-Atlantic region. Ryan Beck, which had been part of **BankAtlantic Bancorp.**, adds 400 brokers and $19 billion in client assets to Stifel's existing network of 700 brokers and $32 billion in assets. In 2006, Stifel acquired the Legg Mason Capital Markets Group as part of its expansion into the East and Southeast. **LPL Holdings**, owned by an investor group led by **Carlyle Group** and management, acquired three broker-dealers based in California, Florida and Illinois from **Pacific Mutual Holding Co.,** in the process adding 2,200 advisors to its existing network of 6,300.

In the municipal bond securities market, which has been going through its own consolidation phase, **Royal Bank of Canada** acquired Cincinnati's **Seasongood & Mayer**, a leading underwriter and distributor of municipal debt in Ohio. The deal enhances RBC's solid position in the U.S. municipal investment banking market and came one month after the bank's purchase of another fixed income specialist, New Jersey-based brokerage **J.B. Hanauer & Co.** Since the middle of 2006, RBC has made seven acquisitions in the U.S.

There were several noteworthy deals involving boutique firms, including **Morgan Keegan & Co.**'s acquisition of **Shattuck Hammond Partners**, a specialty bank and advisory firm operating in the health care industry. Morgan Keegan said the deal "strengthens our firm's position in an important industry segment which has potential for tremendous growth." Shattuck Hammond has raised some $13 billion for clients via debt and equity placements. **Macquarie Group** of Australia cut a deal with former New York Mayor Rudy Giuliani to acquire his investment bank boutique, **Giuliani Capital Advisors**, which specializes in corporate restructuring and M&A work. ❖