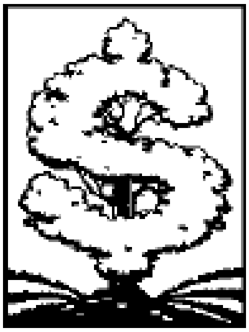
WEALTH MANAGEMENT *Insider*™

Quarterly discussion topics surrounding the Wealth Management Industry

Second Quarter 2003 http://www.berkcap.com/research



Wealth Management Insider is distributed electronically on a quarterly basis. To subscribe or unsubscribe, contact:

Elizabeth Bloomer Nesvold
Director
Berkshire Capital Corporation
535 Madison Avenue, 19th Floor
New York, NY 10022

Email: enesvold@berkcap.com
Voice: 212.207.1000
Fax: 212.207.1019

DISCUSSION TOPIC: To Sell or Not to Sell? That is the Question…

What Precipitates the Decision to Sell for Most Wealth Management Firms? Investment management firms are very attractive businesses, particularly those that cater to affluent individuals and families. Such firms tend to benefit from the stability of the client base and positive demographic trends that have been compelling for the past ten years (and promises to continue for another ten years). So why, then, do any of them sell?

There are, of course, as many reasons as there are businesses and the individuals who manage them. However, Berkshire's experience suggests that several critical considerations drive a majority of the decisions to sell in this industry. Broadly stated, the motivations fall into three areas i) growth; ii) risk management and iii) convenience. Within the growth category is the need for marketing, distribution and additional product. Risk management motivations typically include access to capital, succession planning, estate planning and competitive pressures. The final category,

Continued on page 2

TRANSACTION SPOTLIGHT: Convergent Capital Management

Year Founded:	1994
Total Client Assets:	$6.5 billion
Partner:	City National Corporation (TK: CYN)

Company Descriptions. Chicago-based **Convergent Capital Management, LLC** ("CCM") has made majority investments in ten affiliate investment management firms managing more than $6.5 billion in client assets. CCM effects its investment strategy by structuring creative transactions that incorporate continuing management ownership and delivering demonstrated strategic value to each affiliate post-investment. **City National Corporation**'s wholly owned subsidiary, City National Bank, is the second largest independent bank headquartered in California. City National delivers banking, trust and investment services through 54 offices, including 12 full-service regional centers, in Southern California, the San Francisco Bay Area and New York City.

Partnership Benefits. CYN's acquisition of CCM nearly doubles its managed assets to $13.9 billion. The transaction expands the Bank's presence to new markets while strengthening its position in California. Four of the CCM affiliates are located in California, and the remaining six are in Illinois, Michigan, Texas and Hawaii. CCM's affiliates will provide the Bank's high-net-worth and institutional clients with investment expertise across a broad range of investment styles. Six of the affiliates are focused on wealth management, while the other four firms primarily serve the institutional marketplace. The CCM management team gains a strong partner with a capital base to support business expansion and additional acquisitions.

convenience, might include operations/back office assistance and development of senior management and an appropriate organizational structure. How these matters come into play can best be shown with a few examples.

The sale of **Barrett Associates** in early 2001 to **Legg Mason** was a surprise to many in the New York investment community who knew the Barrett organization. Barrett, then a $2.0 billion manager, had a long and prosperous history. Barrett was in the midst of a record growth spurt on the strength of solid investment results and the company's ability to attract some quality investment professionals who brought assets with them. Barrett had also been able to make much of the management transition for a second time, from one generation to the next. Estate planning was also not an issue, given their strong relationship with a corporate partner (**Ashforth Co.**) who stood ready to offer liquidity for employee owners.

Still, management decided that the marketing and distribution needs of a firm with more than $2.0 billion of assets under management and a considerable number of clients who would inevitably experience life changing events were going to exceed the operating structure that Barrett had in place. The alternatives were to grow the distribution organically or to find a partner who could assist in developing distribution or provide access to existing channels. The senior team concluded that managing a sales and marketing force was a considerably different challenge than overseeing an investment team—such an activity typically tends to be foreign to an individual who has grown up on the investment side of the business. Barrett management was determined to find a partner who could bring enough distribution to assist in growth indefinitely and that could oversee the marketing initiative. The partnership with Legg Mason addressed the key requirement for distribution, while allowing the Barrett management team to continue servicing their clients and developing premier investment ideas. Moreover, some other lesser needs such as access to additional product and ancillary services like trust capabilities have also been addressed.

Those addressing certain risk management issues might include **Convergent Capital**'s recent sale to **City National Bank** (*see "Spotlight" on page one*) or the sale of **Thorson Brown** to **PNC**. Convergent, itself an acquiror of a number of investment firms, was stymied in recent years by the difficulty it had in making additional acquisitions—its shareholder group was reluctant to invest additional capital for a variety of reasons. Achieving liquidity became increasingly important to a number of the outside shareholders. Conversely, gaining access to more capital to facilitate additional acquisitions was a driving force for the management of Convergent, themselves shareholders in the business. As one of the strongest banks on west coast, City National provided a solid base of capital. That it also provided private banking, trust services, brokerage and marketing distribution capabilities was just icing on the cake.

In the case of Thorson Brown, the principals were struggling with mixed objectives of management ownership/continuity and a need for liquidity on the part of several to complete some logical estate planning that could not be accomplished privately. The transaction with PNC allowed certain of the shareholders to get cash for their ownership interest while also gaining access to the resources of PNC to help compete with the increasing number of players in the Greenwich/Fairfield County marketplace.

Finally, addressing operational matters was a key focus of **U.S. Trust** when it originally pursued discussions with **Charles Schwab**. Having sold its custody business to Chase in the early 90's in a transaction that provided for continued service by Chase over five years at attractive terms, U.S. Trust management was confronted with the reality of relying on the decisions of another company to maintain the quality of service to their wealthy clientele. While U.S. Trust could have invested in developing its own systems, the cost and organizational dislocation of such a process appeared daunting. Management concluded that it might make more sense to link with an organization well known for expertise in this arena. Schwab has been a leader in the automation of the investment process and the delivery of information to its clientele in an efficient and technologically savvy manner throughout its history. Arguably, this partnership still has to prove out, unlike the other partnerships noted above, but the rationale remains very compelling if realized.