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535 Madison Ave., 19th Floor
New York, NY10022
212.207.1000 (phone)
212.207.1019 (fax)

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To subscribe or unsubscribe, contact:
bcs.feedback@berkcap.com

As the World Turns

The changing balance of financial power was underlined once more in the first half of 2008 as China's **Ping An Insurance** made a $3.4 billion investment in European asset manager **Fortis Investments** (FI). The purchase of 50% of FI was by far the largest asset management deal in the January through June period and represented yet another watershed for China's financial services industry, which generally plays the part of investment target. In the fourth quarter of 2007, Ping An acquired a 4% share (later raised to 5%) in FI's parent, the Belgian-Dutch financial services firm **Fortis**. Chinese companies on the whole have been aggressive dealmakers this year, spending more in the first five months on international acquisitions ($31 billion) than they did in all of 2007, according to Dealogic.

Based in southern China's booming Guangdong province, Ping An is the nation's second-largest life insurer behind **China Life**. The onetime state-owned firm went public in 2004 and now counts **HSBC Holdings** as its largest shareholder, with a 20% stake. The Fortis deal is an indication both of Ping An's ambitions in asset management (AUM: $70 billion) and in the larger world. Ping An chairman and CEO Peter Ma Mingzhe said the partnership "will immediately establish a global asset management business platform that covers various major financial markets in the world through competitive distribution networks from both institutions."

FI, with nearly $400 billion in AUM, was itself strengthened by its parent's acquisition last year of **ABN Amro**'s asset management businesses. Fortis said the goal of the new company, rebranded **Fortis Ping An Investments**, is to build "one of the preeminent global asset managers" and noted that the "strength of our combined geographic presence and shared expertise represents the ideal platform from which to grow in both Europe and Asia." (The two investments by Ping An were also designed to bolster the financial base of Fortis, which took a hit from both the credit crisis and the ABN deal.)

The nascent Chinese asset management industry provides particularly attractive prospects, with McKinsey & Co. projecting ninefold growth in AUM to $1.4 trillion by 2016. As international asset managers continue to seek a piece of that pie through joint ventures with domestic partners, many Chinese asset managers have a new interest in securing these partnerships: to meet growing domestic demand from both retail customers and institutions for international funds and investments, in line with the government's relaxation on such controls.

The Ping An-Fortis transaction led a busy first half for dealmakers in the asset management industry, in contrast to the larger M&A universe, which experienced a 36% drop in value to $1.6 billion compared with the first half of 2007, according to Thomson Reuters. Hedge funds remained hot tickets, with notable targets including firms specializing in credit and commodities markets. In the largest hedge fund deal, Blackstone Group acquired credit specialist **GSO Capital Partners** for a price that could reach $945 million. Companies hammered by the credit crisis were also buyers, including **BNP Paribas** and **Morgan Stanley**, as well as non-financial firms like **Mitsubishi Corp**., Japan's largest trading group.

The private equity industry, which in 2007 accounted for the largest asset management deal (**Madison Dearborn Partners**' purchase of **Nuveen Investments**), continued to make its presence felt. On the heels of the three asset management deals it cut last year, private equity firm **TA Associates** paid an estimated $500 million for a stake in **Keeley Asset Management** while **Lighthouse Holdings, Inc**. paid $480 million for 90% of **American Beacon Advisors**, the asset management subsidiary of American Airlines' parent AMR Corp. **Asset Management Finance**, started up in 2003 by the former head of United Asset Management, Norton Reamer, financed three deals in the first half, including one in the wealth management arena — **PHH Investments**' acquisition of **RAA Wealth Management**. **Paine & Partners** facilitated the management buyout of New York hedge fund investor **Capital Z Investment Partners**.

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Focus Financial Partners, with ambitions to build a national network of affiliated firms in the U.S., made its first international acquisition, of the U.K.'s **Greystone Financial Services**. Focus Financial was joined by another ambitious wealth manager, **GenSpring Family Office**, which acquired **Inlign Wealth Management** of Phoenix. **Lehman Brothers**, whose independence was thrown into question by a $2.8 billion second-quarter loss, continued to enhance its wealth management business with the announced acquisition of a venerable New York firm, **David J. Greene and Co**. There were several deals in Canada, including **Royal Bank of Canada**'s $1.4 billion purchase of **Phillips, Hager & North Investment Management**, a powerful union in a market characterized by ongoing consolidation.

Although European firms enjoyed an even greater currency advantage this year against the greenback, there was no race to gobble up U.S. asset managers, and the one major deal involved a passive business: **ING Group**'s $900 million acquisition of **CitiStreet**, one of the largest retirement plan and benefit service operations in the U.S., with $351 billion in assets under management and administration and 14 million plan participants. The transaction makes ING the third-largest U.S. defined-contribution business. CitiStreet was owned by **Citigroup** and **State Street**. The Dutch firm also acquired a U.S. hedge fund while divesting a U.S. fixed-income business.

Within Europe, the U.K. experienced numerous domestic deals, led by **iimia MitonOptimal**'s acquisition of **Midas Capital Partners** for $200 million. Action on the Continent was led by one deal in Spain — Morgan Stanley's sale of its "mass affluent" wealth management business to one of that country's largest financial services firms, **La Caixa**, for a price estimated at $900 million. Morgan Stanley retained its ultra-high-net-worth Spanish business, in line with its global strategic focus. **Aegon** was notable for the deals it cut in three of Europe's emerging markets, where it is building a presence in the pension business. **KBL European Private Bankers** made another acquisition in France, a market it has been aggressively targeting.

While M&A activity remained healthy, earnings for many asset managers tumbled in the first quarter, in tandem with the financial services industry. **Legg Mason** took $291 million in charges for its troubled money market funds and reported a net loss of $256 million in what the company called "among the most difficult [quarters] we have ever faced." The firm has also been forced to go to market for capital. **Affiliated Managers Group** reported a 10% drop in net income, **Franklin Resources** a 17% decline, **Waddell & Reed Financial** a slight drop, and **Calamos Asset Management** net income of just $449,000, down from $7.5 million in the year-earlier period. **T. Rowe Price** and **Eaton Vance** were notable in bucking the trend of negative earnings news. The impact of the challenging environment was evident in share prices, with the asset management component of the Dow Jones U.S. Index declining 18% in the first half.

Calculating the credit tally

The subprime and credit crisis continued to dominate the business headlines in the first half, exacting an ever-mounting toll on earnings, balance sheets, shareholder value and careers. The Organization for Economic Co-operation and Development (OECD) figures subprime-related losses will fall between $350 billion and $420 billion. The International Monetary Fund (IMF) says the price tag for losses and writedowns of U.S. assets could eventually reach $945 billion, placing "significant pressure on the capital adequacy of U.S. and European banks." The July 13, 2008 announcement of the potential U.S. government guaranteed loans of up to $300 billion for both Fannie Mae and feddie Mac suggest that the IMF may be optimistic.

Financial writer and former banker Charles Morris places his bet in the title of his recently published and widely quoted book, "Trillion Dollar Writedown," but also projects continued mayhem along the entire fault line of debt-related financial instruments. **Goldman Sachs** weighed in at $1.2 trillion for credit losses as a whole, while Nouriel Roubini, a noted economics commentator and professor at New York University, figures the eventual cost will be $1 trillion to $2 trillion.

Among financial institutions, the global writedowns and losses continued apace in the early part of the year, with **Citigroup** losing $5.1 billion in the first quarter and adding another $12 billion in writedowns (bringing the total to $32 billion) and UBS taking $19 billion in writedowns (for a total of $38 billion). Banks throughout the world responded by continuing to shore up their reserves with billions in new capital, a necessary process that nevertheless further diluted shareholder value.

The impact of the crisis on economic activity continued to mount, with the IMF knocking a half-point off the global economic growth number it projected at the start of the year (down to 3.7%) and a full point off U.S. growth (to 0.5%). The IMF's growth estimates for the eurozone (1.8%), Japan (1.4%) and emerging markets (6.7%) have taken smaller hits, though projected growth for all those markets is down significantly from 2007. Amid the turmoil, the IMF clipped a percentage point off its estimate for worldwide trade in goods and services, to 5.6%, compared with 6.8% last year and 9.2% in 2006.

Although ratings agency Fitch figures global banks have written off 80% of subprime-related losses, many observers remain reluctant to predict an end to the crisis. In particular, the enormous run-up in the price of oil adds a significant drag on optimism, as the real price of the commodity passed the level prevailing during the second oil crisis, in 1980. Far higher prices may not be far off, with the president of OPEC suggesting recently that oil could reach $200 a barrel. Goldman Sachs, which three years ago predicted that oil would hit $100 a barrel (it was $55 at the time), also held out the possibility of a $200 price tag within two years.

Not everyone is hurting, of course. Hedge fund manager John Paulson, who runs **Paulson & Co.** of New York (AUM: $28 billion), is estimated to have made $3.7 billion last year, thanks to a prescient call on the subprime mortgage market; vulture funds have predictably emerged to buy assets at knockdown prices; and companies and institutions with cash are also in an enviable position, including the much-discussed and oft-maligned sovereign wealth funds. At a hedge fund conference in June, Paulson didn't offer much solace, warning that the housing market "shows no signs of stabilizing" while holding that the subprime contagion would spread to other areas such as non-residential construction and consumer spending. He figures the final tab for the crisis in the credit markets will be $1.3 trillion.

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Wealth Management

Dealmakers in the wealth management sector set an aggressive pace in the first half of 2008, building off the record-breaking year of 2007 (82 transactions valued at $9.1 billion). Amid the general gloom in financial services, the strong demand for wealth managers among firms of all sizes highlights the industry's strong prospects and attractiveness. **GenSpring Family Offices** (formerly Asset Management Advisors), a Florida-based multi-family office with aggressive plans for expansion, acquired **Inlign Wealth Management** of Phoenix, adding $2 billion in assets under advisement to the $13 billion it already managed while building its presence in the Southwest. Founded in 1989 and since 2001 an affiliate of **SunTrust Banks**, GenSpring has seen its assets increase 30-fold over past six years. Inlign will be wrapped under the GenSpring name.

Management at another ultra-high-net-worth firm, **CTC Consulting**, opted for independence via a buyout after 15 years in the arms of larger parents, most recently **Bank of America** (and prior to that U.S. Trust). Based in Portland, Ore., and founded in 1981, CTC had earned a reputation for maintaining its independence within the framework of larger institutions. CTC chairman and CEO Garbis Mechigian said the buyout fit the firm's goal of providing clients with "objective advice." CTC has $28 billion under advisement. **Lehman Brothers**, which has been expanding both its hedge fund and wealth management capabilities via acquisitions, was one of the larger players in the marketplace, cutting a deal for **David J. Greene and Co.** (AUM: $2 billion), a 70-year-old New York firm that was still run by the founding family. Lehman will add the "special situations" value investor to its **Neuberger Berman** unit, which manages $145 billion for wealthy clients and institutions. Joseph Amato, Lehman's global head of asset management, said the acquisition "underscores the firm's commitment to expanding our world-class asset management capabilities."

Societe Generale cemented a "global alliance" with another venerable New York wealth manager, **Rockefeller & Co.**, that included the purchase of a minority stake in parent **Rockefeller Financial Services**. The companies said they will "work together to share areas of expertise and jointly serve the financial needs of ultra-high-net-worth individuals and family offices around the world." Rockefeller & Co. has $29 billion in asset under administration. In a second transatlantic deal, New York-based **Focus Financial Partners** made its first non-U.S. acquisition, of **Greystone Financial Services** of the U.K. Started up in 2006, Focus Financial has built a portfolio of 15 affiliated firms managing a total of $26 billion in assets. Greystone, with offices in Manchester and London, has been in business since 1989 and has $1.6 billion in assets under advisement.

Focus is backed by Boston-based **Summit Partners**, among the growing number of private equity firms investing in wealth managers. These include **Sienna Group**, which in the first quarter paid $40 million for an interest in **Freestone Capital Management**, a 9-year-old Seattle wealth manager with $2 billion in AUM and a focus on alternative investments. Freestone plans to use the capital to expand along the West Coast. Sienna was started five years ago by the husband-and-wife team that founded the Seattle Coffee Company chain acquired by Starbucks in 1998. **Lovell Minnick Partners**, a private equity firm active in financial services, acquired a majority interest in **Mercer Advisors**, a Scottsdale, Ariz., wealth manager that targets dental and medical practitioners. Mercer, with $3.6 billion in AUM, said the transaction will allow it to "more aggressively expand its dental market share" and invest in "client service offerings."

Asset Management Finance of New York provided the capital for an all-Texas deal involving **PHH Investments**' purchase of **RAA Wealth Management** from **E*Trade Financial Corp.** Combined, the two Dallas wealth managers have $2 billion in AUM. AMF has facilitated a total of 11 asset management deals, including two others in the first half of this year, by providing capital in return for a limited-term, revenue-share interest, as opposed to a shareholding. The company is led by the founder and former head of United Asset Management, Norton Reamer, who has set an aggressive goal of six to eight transactions a year. More boldly, Reamer suggested in a recent speech that the attractiveness of such revenue-sharing investments "could double the number of annual transactions in the [asset management] industry. That could leave us pretty busy."

SWS Group of Dallas acquired Beverly Hills-based **M.L. Stern & Co.**, in the process doubling the number of financial advisors in its small wealth business. As part of the deal, concluded with a **Pacific Life Insurance** subsidiary, SWS took control of M.L. Stern-owned **Tower Asset Management**. SWS said the transaction positions it "in two of the nation's most dynamic state economies – Texas and California." Founded in 1980 as an independent broker-dealer, M.L. Stern has $4 billion in customer assets under custody, with Tower adding $450 million in AUM. Publicly traded SWS has $6.9 billion in AUM. Familiar small buyers included **Sanders Morris Harris** of Houston, which concluded two deals. SMH was joined by newcomers to the market such as **Susquehanna Bancshares** of Pennsylvania, which made an acquisition for the second straight year (buying **Stratton Holding Co.** based near Philadelphia). In perhaps the most unusual transaction of the first half, a restaurant chain, **Western Sizzlin Corp.**, entered the business via the $1.2 million purchase of 51% of **Mustang Capital Advisors**, a Houston firm with $55 million in AUM that already held a 7% interest in its new parent.

In Canada, Montreal-based **National Bank of Canada** purchased **Aquilon Capital Corp.** of Toronto in a bid to strengthen its wealth management presence in that city. The deal also meets NBC's goal of integrating into its wealth management business "smaller players no longer able … to shoulder the regulatory burden." Aquilon, founded in 1990, manages $500 million in assets for 1,500 clients. In an institutional deal with a wealth component, Canada's largest bank, **Royal Bank of Canada**, acquired **Phillips, Hager & North Investment Management** for $1.4 billion. PH&N has $70 billion in AUM, about $13 billion of which is managed for private clients (see Mutual Fund Institutional section for more information).

Mutual Funds/Institutional

Although M&A activity in the institutional and mutual fund sectors was comparable to prior first-half periods, observers were actively speculating about the pressure on mutual fund companies in particular to partner up if stock markets remain in the doldrums. During the first quarter, equity funds

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in the U.S. experienced a net outflow of $45 billion, while assets in such funds dropped 10% from year-end 2007 to $5.9 trillion, according to the Investment Company Institute. By contrast, money market fund assets rose 11% to $3.5 trillion. Emerging Portfolio Fund Research figures equity funds worldwide experienced close to $100 billion in outflows in the first three months. For its part, the institutional sector worldwide continued to redefine itself, as both public and private pension schemes prepare for the retirement of baby boomers. In Japan, for example, an advisory group reviewing the $1.4 trillion public pension plan recommended the use of external money managers in place of government employees, along with a more robust investment posture that includes alternative investments.

The drift toward alternatives notwithstanding, traditional institutional and mutual fund managers remain in demand, with several significant deals and high-profile buyers emerging in the first half. The largest deal involved **Royal Bank of Canada**'s $1.4 billion acquisition of **Phillips, Hager & North Investment Management**, one of Canada's largest independent asset managers with $70 billion in AUM, 80% managed for institutions. The transaction makes Royal Bank one the nation's largest pension fund managers and the second-largest mutual fund manager, behind **IGM Financial**. Combined, the two firms have $160 billion in AUM. For Vancouver-based PH&N, the union provides access to a powerful distribution network as Canada's asset management industry continues to consolidate.

In the U.S., there were two key deals involving private equity firms, including **TA Associates**' purchase of a stake in **Keeley Asset Management** (AUM: $10 billion) for an estimated $500 million. An established Chicago firm that "specializes in investing in companies undergoing internal corporate restructuring," Keeley manages several small- and mid-cap value funds and also incorporates a broker-dealer. Last year, TA Associates invested in three asset managers, including **Jupiter Asset Management** of London. (In July, Keeley acquired 18% of **Pzena Investment Management**, a publicly traded New York mutual fund company that has seen its AUM drop 40% over the past year to $19 billion, following a four-year period of torrid growth.)

In the second private equity deal, **Lighthouse Holdings, Inc.** paid $480 million for 90% of the asset management subsidiary of American Airlines' parent AMR Corp., **American Beacon Advisors** (AUM: $65 billion). Lighthouse was created by two private equity firms, **Pharos Capital Group** and **TPG Capital**, to facilitate the deal. Formed in 1986 out of American Airlines' treasury department with $4.9 billion in AUM, American Beacon expanded beyond handling the airline's pension and short-term cash assets to manage assets for other institutions. American Beacon also has a broad lineup of no-load mutual funds open to retail investors. Kneeland Youngblood, co-founder and managing partner of Pharos Capital, called asset management "a robust sector in which American Beacon is a strong leader."

The other deal of note in the U.S. involved **Natixis Global Asset Management**'s purchase of **Gateway Investment Advisers** (AUM: $7.9 billion), which manages the $4.3 billion Gateway Fund and a variety of subadvised mandates and private accounts. Founded in 1977 and based in Cincinnati, Gateway pursues a "risk-conscious approach" that mixes equity investments with index-hedging strategies. J. Patrick Rogers, president and CEO of Gateway, said the deal allows his firm to gain "access to a broader distribution base and prospects for a higher growth rate than was possible as an independent organization." With $900 billion in AUM, Paris- and Boston-based Natixis Global is one of the largest asset managers in the world, if one of the lowest-profile. Formed last year from the merger of two French financial services firms, **Group Caisse d'Epargne** and **Group Banque Populaire**, Natixis Global is made up of a variety of affiliates, including such U.S. firms as **Harris Associates** and **AEW Capital Management**. In a second cross border deal involving a major non-U.S. buyer, **Macquarie Group** of Australia acquired a majority of fixed-income fund manager **Allegiance Investment Management**, a 20-year-old California firm with $4.5 billion in AUM.

Two large New York investment banks cut institutional deals with **Robeco**, with **Morgan Stanley** acquiring the Dutch asset manager's U.S. taxable fixed-income unit (AUM: $4.8 billion) and **Lehman Brothers** the nontaxable U.S. fixed-income business (AUM: $1.5 billion). In explaining the divestitures, Robeco, which is part of **Rabobank**, noted its limited scale in the U.S. in the fixed income market, saying it would focus instead on equities and alternatives. Lehman also acquired "special situations" value investor **David J. Greene and Co.** (AUM: $2 billion), a wealth manager with an institutional business (see Wealth Management). **First Western Trust Bank**, a 6-year-old wealth manager from Denver, acquired Los Angeles-based **Financial Management Advisors** (AUM: $1.5 billion), in the process doubling its AUM and adding a fixed-income institutional business along with a presence in California. FMA said the "infrastructure and resources" of First Western would allow it to make "sound investment decisions for our clients for years to come."

Mutual fund giant **Fidelity Investments** entered the market to acquire the **Capital One** mutual fund business, consisting of $700 million in AUM, while a deal between two small privately held West Coast players saw Gordon Getty's **Forward Management** of San Francisco acquire Seattle-based **Accessor Capital Management** (AUM: $3.3 billion), creating a combined company with more than $5 billion in AUM and 34 funds. **Phoenix Cos.** of Connecticut announced a plan to spin off its asset management unit, **Phoenix Investment Partners**, with the parent holding on to its life and annuity businesses. Phoenix Investment will have $41 billion in AUM through several partner firms, while Phoenix Cos. retains one of the firms, **Goodwin Capital Advisers**, as manager of its general account assets. In its annual report, management called the spinoff a "catalyzing event at a time when the business is poised for growth," saying Phoenix Investment "can now use its capital and cash flow to pursue its own strategic goals."

In a distress sale resulting from the credit crisis and designed to raise capital, ailing bond insurer **ACA Financial Guaranty Corp.** divested its U.S. asset management business consisting of corporate credit collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs). The businesses were sold to **FSI Capital** of Cincinnati and **Resource America** of Philadelphia, respectively. Last December, Standard & Poor's cut ACA's credit rating to junk status from "A." The **Babson Capital Management** unit of **MassMutual Financial Group** also went trawling in the turbulent credit markets, acquiring **Murray Capital**

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Management's distressed debt management business. Babson called the deal "well-timed given the unprecedented market dislocation that is creating distressed debt investment opportunities" while noting that it was "consistent with our philosophy of selectively adding capabilities that complement and extend the investment strategies we offer our clients." **Istithmar World Capital**, the alternative investment arm of Dubai's state investment fund, took a majority stake in **Gulf Stream Asset Management**, a North Carolina-based institutional firm with $3.8 billion in corporate credit portfolios.

In addition to the Royal Bank of Canada-Phillips, Hager deal, there were two other all-Canadian institutional transactions of note, led by **Co-operators Group**'s $307 million acquisition of **Addenda Capital** (AUM: $29 billion), a leading fixed-income firm. The deal brings together Ontario-based insurer Co-operators, an amalgam of 40 Canadian co-operatives and credit unions, with Montreal-based Addenda to create "a national investment manager of significant scale." The new entity, with a combined $40 billion in AUM, will continue to operate under the Addenda name. In the second deal, **DundeeWealth** acquired 60% of **Aurion Capital Management**, with employees of Aurion holding the remainder. Dundee said the deal supports "our expansion into the institutional market" while Aurion touted its larger partner's "financial resources and distribution capabilities." Toronto-based Aurion has seen its AUM more than double over the past five years to $4.5 billion. In 2007, **CI Financial Income Fund** made an unsuccessful bid to take over publicly traded DundeeWealth, which has $61 billion in AUM. Last year, **Bank of Nova Scotia** took an 18% stake in DundeeWealth and acquired the firm's banking unit.

Elsewhere in the world, China continued to play host to numerous mutual fund deals. Three years after buying a 20% shareholding in **Harvest Fund Management** of Beijing, **Deutsche Bank** boosted its stake to 30% in the first quarter. Harvest is one of China's largest fund managers, with $36 billion in AUM. Late last year, Deutsche took a 60% stake in a Taiwan mutual fund company, **Far Eastern Alliance Asset Management Co.** Over the past few years, the German bank has made China and India a particular focus of its Asian expansion plans; it also plans to open a Shanghai office this year to serve wealthy Chinese customers.

Two other European firms built upon existing insurance operations to enter the fund business in China, including **Aegon**, which took the maximum allowable 49% shareholding in Shanghai-based **Industrial Fund Management** (AUM: $4.6 billion), owned by **Industrial Securities**. The Dutch firm, which has had an insurance joint venture in China since 2002, called Asia "an essential pillar" of its "international growth strategy." **Morley**, the asset management unit of British insurer Aviva, took a 40% stake in a joint venture with two Chinese firms, **China National Oils, Foodstuffs and Cereals Corp.** and **Dongguan Trust and Investment Co.** The new company will be based in Shanghai, where Morley recently opened a representative office. Aviva had an existing relationship with China National Oils via a life insurance joint venture started in 2003. The company also introduced five of its Aviva Investors SICAV funds in Taiwan, through its local joint venture partner, **First Financial Holding**. **BlackRock** and **Bank of China** formed a joint venture fund company, **Bank of China Investment Management Co.**, designed to "build a top-tier fund management company."

Alternative

The hedge fund sector, which last year reached a new threshold for deal value ($8.4 billion), remained a center of activity in the first half, with transactions being cemented worldwide by key financial players and notable targets including companies specializing in credit and commodities markets. **Morgan Stanley**, the most active buyer in recent years, made its seventh hedge fund investment since 2006, taking a minority stake in **Hawker Capital (Cayman) Ltd.**, a London firm started up last year that provides Morgan Stanley with a presence in the commodities arena.

Goldman Sachs tapped another area of opportunity in cutting a deal for New York credit specialist **Claren Road Asset Management** (AUM: $2.7 billion). Goldman also invested in two London-based firms: **Capula Investment Management** (AUM: $3 billion), a relative value and macro manager focused on fixed-income investments; and **Trafalgar Asset Manager** (AUM: $3 billion), which manages 10 funds across a range of strategies, including event and distress situations. Goldman made both deals through its **Petershill** private equity fund, capitalized with $500 million last year to invest in hedge funds. Similarly, **AIG** formed a joint venture with New York's **Larch Lane Advisors** to make seed investments in hedge funds, with anticipated capital commitments of $50 million to $200 million per deal. An alternative investment affiliate of **Old Mutual**, Larch Lane has made 22 such investments in over the last seven years. (Separately, **Lehman Brothers**, which owns stakes in several hedge funds, was reportedly seeking to raise as much as $5 billion in a private equity fund designed to invest in hedge funds.)

Man Group, the London-based publicly traded hedge fund, took a 50% stake in another New York credit specialist, **Ore Hill Partners** (AUM: $3 billion), for $235 million in cash and shares. The company called the transaction part of its "strategic plans to expand the range of its investment products," saying Ore Hill would serve as the "platform to develop a leading multi-strategy credit business globally." As part of the deal, Ore Hill agreed to acquire 50% of Man's European credit manager, **Pemba Credit Advisors** (AUM: $3.7 billion). Through its **Man Environmental Capital Opportunities** private equity unit, Man Group concluded a second and smaller deal in the first half, paying $50 million for a 25% stake in **Nephila Capital** (AUM: $2.4 billion). A 9-year-old firm based in Bermuda, Nephila specializes in weather-related investments that provide "access to uncorrelated sources of returns," including insurance-linked securities, catastrophe bonds, insurance swaps and weather derivatives. MAN Eco seeks investments related to "environmental concerns."

Blackstone Group's purchase of **GSO Capital Partners** (AUM: $10 billion) was also done with an opportunistic eye on credit markets. GSO, founded in 2005 by several veterans of **Credit Suisse First Boston**'s alternatives unit, manages a variety of funds in the leveraged finance marketplace. Stephen Schwartzman, chairman and CEO of Blackstone, said the merger of the two businesses, with a combined $21 billion in AUM, "will produce one of the largest credit platforms in the alternative asset management business."

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The "current dislocation in the credit markets," he added, made it "an ideal time to create a more powerful, diversified platform." The deal is structured over five years and includes specific earnings targets that could bring the price to $945 million, including an upfront payment of $630 million in cash and shares. Last year, **Merrill Lynch** acquired a 20% stake in GSO, a shareholding that was bought out by Blackstone.

Macquarie Group of Australia acquired the hedge funds of **Craton Capital**, a 5-year-old asset manager based in South Africa that divested the business to focus on its long-only equity funds. The commodities-focused hedge fund business has about $100 million in AUM and was wrapped into Macquarie's asset management unit. In another cross border deal, Japan's largest trading group, **Mitsubishi Corp.**, expanded an existing relationship with hedge fund manager **Aladdin Capital Holdings** (AUM: $18 billion) by purchasing a direct $40 million stake (20%) and making an additional $300 million investment in a joint fund with Aladdin. Mitsubishi was already an investor in funds run by Connecticut-based Aladdin, a specialist in high-yield bonds.

Among the European firms making investments, **BNP Paribas** was notable for its acquisition of **Investment Manager Selection**, a London multi-manager firm with $9.5 billion in AUM. IMS will be wrapped into **FundQuest**, BNP's $60 billion multi-manager flagship. Gilles Glicenstein, head of BNP Paribas Investment Partners, called the acquisition "a new step in our multi-specialists strategy, as it reinforces our ability to deliver comprehensive and innovative solutions." A transatlantic management buyout saw executives at **Capital Z Investment Partners** purchase the shares owned by **Zurich Financial Services Group**. Capital Z, founded in 1998 and based in New York, invests both in hedge funds and the companies managing the funds. The company has sponsored and taken minority interests in 16 hedge fund managers handling a total of $11 billion in assets. The buyout was backed by private equity firm **Paine & Partners** of San Francisco and New York. In a second deal with a transatlantic element, **ING Group** acquired a minority stake in 3-year-old **Lincoln Vale**, which has offices in Boston and London. ING said it will make "substantial capital commitments" to fund launches and expand distribution of Lincoln Vale funds.

In a management buyout in another alternative investment area, real estate advisors, executives at Atlanta-based **Forest Investment Associates** purchased the controlling stake of Charles Tarver, who co-founded the firm in 1986. Financing for the deal was provided by management and employees, as well as **Asset Management Finance**, which financed two other asset management deals in the first half. FIA manages $2.8 billion in assets in broadly diversified portfolios of timberland and seeks to generate "long-term returns in the range of 6%-10% above inflation." L. Michael Kelly, president of FIA, said the deal "sets FIA on a stable, independent path for many years to come." Traditionally designed for institutions, timberland investments have become available to retail investors over the past year via a new exchanged traded fund, **Claymore/Clear Global Timber Index**, and the **Wells Timberland REIT**.

Europe

Economic conditions in Europe remained reasonably solid, with the International Monetary Fund raising its eurozone GDP growth projection by midyear to 1.8% from an earlier 1.4%. At the same time, **Lehman Brothers** and Bloomberg data showed first-quarter earnings declines for European companies of 18% and 23%, respectively, dragged down by bank woes, while the European Central Bank's second-quarter banking survey showed a decline in the three loan categories it tracks (consumer, corporate and housing). European banks, which observers initially thought would have less exposure than their U.S. counterparts to subprime-related securities, have in fact sustained greater credit losses so far this year, according to the Institute of International Finance ($200 billion compared with $168 billion for U.S. banks). **UBS** has been particularly hard hit by the crisis, with $38 billion in losses on mortgage-backed assets, but **Credit Agricole**, **Credit Suisse**, **Deutsche Bank** and **Royal Bank of Scotland** were among a long list of European firms reporting significant writedowns this year.

Although the euro continued its seemingly inexorable climb in the first half, fetching $1.60 by summer, European financial services firms in search of asset managers stayed close to home and transactions were modest. There was one noteworthy deal between two European firms involving a U.S. unit, as London-based fixed-income manager **Rogge Global Partners** acquired the U.S. high-yield business of **ING Group**. The deal for New York-based **ING Ghent** extends Rogge's portfolio and adds $1.7 billion to the $37 billion it already managed for institutions. Rogge, a unit of **Old Mutual**, said the two companies "will seek to provide clients with global exposure in [the high-yield] area." In the hedge fund sector, with an established U.S.-U.K. deal axis, ING picked up **Lincoln Vale**, which has offices in Boston as well as London, while **Man Group** of London invested in a New York credit specialist, **Ore Hill Partners** (see Alternatives).

The U.K. was the center for most of the European activity, with a number of publicly traded firms acquiring domestic players. There were two all-U.K. deals in the wealth management and "mass affluent" arenas, the larger of which involved **Legal & General Group**'s purchase of **Suffolk Life** (AUM: $5.8 billion) for $120 million. The acquisition provides Legal & General with a leading provider and administrator of self-invested personal pensions (SIPPs), one of the two individual pension schemes available in the U.K. For its part, Suffolk pointed to the benefits offered by a larger parent, including superior distribution and technology. Legal & General, the third-largest British insurer, has $580 billion in AUM and last year recorded new fund inflows of $100 billion. In the second deal, **Rathbone Brothers**, an independent wealth manager with $24 billion in AUM, acquired **Citywall Financial Management**, a small private client and institutional firm.

First London Securities, which last year floated on London's PLUS exchange for small- and mid-cap companies, jumped into the marketplace with acquisitions of two domestic firms, paying $50 million for **Torus IB**, a holding company for boutique asset managers, and $60 million for the hedge fund business of **Belgravia Financial Services** (AUM: $460 million). **iimia MitonOptimal**, a wealth and mutual fund manager that trades on London's AIM exchange, acquired **Midas Capital Partners** for $200 million, creating "a leading multi-asset fund management company" in the U.K. with a combined $6 billion in assets under management and advice,

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half the amount contributed by Midas. The firm subsequently changed its name to **Midas Capital plc**. In the fourth quarter of 2007, iimia acquired MitonOptimal, adding $700 million to the $1.6 billion it already managed at that time.

The largest British asset manager to cut a European deal, **Schroders**, crossed borders in acquiring the third-party fund management business of **Swiss Re**, **Swiss Re Asset Management Funds**. Schroders said the acquisition of the six funds (AUM: $1.4 billion) "deepens our footprint" in Switzerland, the third-largest institutional market in Europe. Some analysts have criticized Schroders for not being aggressive enough in using its $1 billion cash stockpile to make acquisitions.

Aegon continued to build scale in emerging European pension markets with acquisitions in three separate countries, including two asset management units owned by **Uniqa Insurance of Hungary** (part of Austria's **Uniqa Group**), **Uniqa Asset Management** and **Heller-Saldo 2000 Pension Fund Management**. The deal adds $450 million in assets to the $2.4 billion Aegon already managed in Hungary. The Dutch insurer and asset manager also made its entrance into the Turkish insurance and pension market by acquiring **Ankara Emeklilik**, which has 54,000 pension fund members and $50 million in AUM. In the completion of an agreement announced last year in Poland, Aegon bought out **BRE Bank**'s shareholding in the pension business the two companies had merged. The combined firm, the fifth-largest pension fund manager in Poland, has $2.6 billion in AUM and serves 800,000 members. BRE Bank is majority-owned by **Commerzbank**. By 2010, Aegon hopes to double the number of pension fund members it serves in Central and Eastern Europe.

In a wealth management deal on the Continent, **KBL European Private Bankers**, part of Brussels-based **KBC Group**, made its third acquisition in the last three years in France, where it is seeking "critical mass," buying **Richelieu Finance** of Paris (AUM: $6 billion). KBL's local private banking unit will now operate under the Richelieu name. KBL has a network of private banking operations in eight markets in Europe with combined AUM of $85 billion, three-quarters of which is managed for private clients; it has operated in France since 1998.

Securities

A number of major financial services firms acquired securities operations in the first half, led by **JPMorgan Chase**'s high-profile $1.2 billion acquisition of **Bear Stearns**, a distress sale facilitated by the Federal Reserve's guarantee of $29 billion of Bear's diciest assets. JPMorgan, which has been relatively unscathed by the subprime crisis, said the deal provides it with a strong prime brokerage and global clearing services business while enhancing its "equities platform overall." Longer term, JPMorgan says it expects to generate annual income between $600 million and $750 million from the equities and prime brokerage arms of the former Bear Stearns. In a second deal, JPMorgan acquired the institutional global custody business of Stockholm-based **Nordea AB**, involving more than $300 billion in assets. Worldwide, JPMorgan has $10 trillion in assets under custody. JPMorgan called the deal the beginning of the "next stage of evolution of our Nordic expansion."

In a second transatlantic deal, **BNP Paribas** acquired the equity prime brokerage business of **Bank of America** for a price of up to $300 million, according to news reports. The transaction provides BNP with more than 500 hedge fund clients and makes it "one of the leading prime brokers in the U.S." BNP said the deal also underlines its "commitment to its corporate and investment banking model." For BoA, which had the unit on the sale block for six months, the divestiture reflects the decision to pare down its investment banking activities.

In a North American cross border transaction, **Royal Bank of Canada** paid an estimated $230 million for privately held **Ferris, Baker, Watts**, a venerable Washington, D.C.-based brokerage and investment bank. FBW operates in 10 states and Washington and has $18.5 billion in assets under administration. RBC said the deal underlines its commitment to "building our wealth management presence in the U.S. and takes us one step closer to our goal of becoming a nationally recognized investment, advisory and wealth management firm." In a securities deal in the U.S. last year, RBC acquired Cincinnati's Seasongood & Mayer, a leading underwriter and distributor of municipal debt in Ohio.

Citigroup bought **Legg Mason Private Portfolio Group**, a managed account trading and technology platform that it plans to wrap into Citi Global Wealth Management, making that business "a leading implementation and overlay provider." **Legg Mason** created the unit last year to handle the separately managed accounts it inherited from Citigroup in 2005, when the two companies swapped their respective asset management and brokerage businesses.

In a deal between two London companies, publicly traded **ICAP Plc.** acquired equity derivatives broker **Link Asset and Securities Co.**, for an initial price of $270 million that could reach $500 million, based on performance. ICAP, a leading voice and electronic inter-dealer broker, said the deal nearly doubles its market share in over-the-counter and exchange-traded equity derivatives, to 18%. In China, **Credit Suisse Group** and **Deutsche Bank** both gained approval to form joint venture securities firms, in a sign that regulators, under U.S. pressure to open the market, are relaxing the rules that had stymied such deals. Citigroup and **Morgan Stanley** are awaiting approval on agreements they have reached with Chinese partners to set up securities joint ventures. Non-Chinese firms are limited to a one-third shareholding in such deals.

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