

Pensions & Investments

THE INTERNATIONAL NEWSPAPER OF MONEY MANAGEMENT

Legislation

Move afoot to help states escape benefit obligations

Gingrich seeks bill allowing bankruptcy and averting bailouts

By Doug Halonen

Former House Speaker and possible GOP presidential contender Newt Gingrich is pushing for federal legislation giving financially strapped states the right to file for bankruptcy and renege on pension and other ben-

efit promises made to state employees. Proponents of the measure — which include Americans for Tax Reform, a Washington lobby group that fights tax increases — said the legislation is desperately needed to clear the way for struggling states to slash costs before they go belly up and should be regarded as a pre-emptive move that could preclude the need for massive federal bailouts.

“It’s in the short-term and long-term interests of government workers and taxpayers to start those re-

forms now, rather than having to pick up the pieces after a crash landing,” ATR President Grover Norquist said in an interview.

“We are working with people inside and outside of Congress on this issue,” said Joe DeSantis, a spokesman for Mr. Gingrich, whom Mr. DeSantis said is considering a bid to be the Republican presidential candidate in 2012.

Mr. Gingrich discussed the proposal in a Nov. 11 speech before the

[See **STATE** on page 22]



BANNING: Newt Gingrich's proposal would bar tax increases as part of the solution.

At Deadline

Grossman exits BlackRock

Blake Grossman, a BlackRock vice chairman, will leave the firm by the end of the first quarter to “explore new opportunities beyond BlackRock,” according to an internal memo from Laurence D. Fink, chairman and CEO, obtained by *Pensions & Investments*.

Bobbie Collins, a BlackRock spokeswoman, confirmed in an interview that Mr. Grossman will leave and will not be replaced as vice chairman.

Mr. Grossman joined BlackRock after its December 2009 acquisition of Barclays Global Investors, where he was CEO. He also is a member of BlackRock's global executive and global operating committees. He will serve in an advisory role until his departure, Mr. Fink said in his memo.

Sources who asked not to be identified said Mr. Grossman's departure long had been planned. According to Mr. Fink's memo, Mr. Grossman has been gradually passing on various duties to other BlackRock executives over the past year, including his role as head of scientific investments.

His investment duties have been assumed by J. Richard Kushel, senior managing director and head of portfolio management, and Ken Kroner, managing director, CIO and

Continued on page 22



RETURNING: Cambridge's John Temple said last year's M&A market saw “the return of the strategic buyer.”

SPECIAL REPORT MONEY MANAGER M&A

Small deals were big story in '10

Convergence of traditional and alternatives managers is growing

By Douglas Appell

The blockbuster divestitures that dominated money manager merger-and-acquisition activity in 2009 gave way to a raft of smaller deals in 2010, driven by globalization and the continued blurring of lines between traditional and alternative investments.

The year saw a pickup in the number of deals, while both deal value and assets under management changing hands dropped dramatically as sales by financial conglomerates looking to shore up their balance

RELATED CONTENT:

To view Freeman & Co.'s 2010 Financial Services M&A report, go to pionline.com/ma2010.

sheets in the wake of the 2008 market crisis subsided.

Freeman & Co. LLC reported 227 money management-related M&A deals for the latest year, up 27% from 2009. But combined assets under management in those deals came to \$711 billion, down from \$4.7 trillion in 2009 and less than half of last year's biggest deal: BlackRock Inc.'s purchase of Barclays Global Investors, and its \$1.5 trillion in AUM.

Cambridge International Partners, which only tallies deals where money management operations account for more than 50% of an acquired firm's revenue, re-

[See **DEALS** on page 12]

Real Estate

Firms see REITs as right move

Managers look to launches as way to raise investment capital

By Arleen Jacobius

Everybody wants to be a REIT. Some real estate investment managers, finding that raising new investment capital is a tough and unrewarding slog, are considering launching a real estate investment trust to raise money.

Investment bankers say they are working furiously to prepare a

number of REIT initial public offerings for real estate money managers.

REITs have been able to raise piles of cash in the public markets. According to the National Association of Real Estate Investment Trusts, REITs concluded \$23.6 billion in additional stock offerings — called secondary offerings — in 2010, the most since

NAREIT began tracking them in 1992.

These days, most investor real estate capital is invested in commingled funds. According to the Pension Real Estate Association's 2010 investor survey, slightly more than 42% of U.S. institutional real estate portfolios were invested in commingled funds in 2009, up



DEDICATING: Jon Sturtegger said companies seeking IPOs are putting their entire business in REITs.

from 40% in 2008. During the same time period, direct real estate investment dropped three percentage points to 40%.

REITs have an easier time raising money than investment managers of private real estate because investors again are seeking liquidity, said John Brod-

[See **REIT** on page 24]

INSIDE 3

AQR CAPITAL'S CLIFF ASSNESS:

“My new (market-timing) doctrine is sin, but only a little.”



Now on Pionline.com/features

Small assumptions: Corporate defined benefit pension plans are likely to lower their expected rate of return assumptions if large public plans continue to do the same, according to a recent study.

Say what? Almost half of companies don't know what level of shareholder support of executive compensation is say-on-pay



votes will be considered successful by their boards, according to Towers Watson.

Portfolio management: As interest rates have dropped to historically low levels, concerns have begun to focus on how to manage fixed-income portfolios through a potentially rising interest rate environment. A new white paper produced by Diversified Trust offers some insight. Visit pionline.com/whitepapers.

Data: Among charts at pionline.com/charts: Neither economists nor the Fed funds futures predict the Federal Reserve will raise its short-term financing rate in 2011. Among developed European countries, stocks in countries with debt woes performed the worst in 2010, with Greek equities falling more than 40%.

MONEY MANAGER M&A

Deals

Continued from page 1

ported 177 deals for the latest year, up slightly from 174 deals in 2009. Combined deal value, meanwhile, tumbled to \$18.1 billion, from \$35.2 billion the year before.

Despite the mixed results, investment bankers insist the latest vital signs for M&A activity point to improved health for the industry. Forced divestitures accounted for six of the 10 biggest deals in 2009 but only two of last year's crop — Brussels-based KBC Bank's sale of its European private banking arm to Mumbai-based Hinduja Group and Paris-based BNP Paribas Group unit Fortis Bank's sale of Artemis Investment Management to Beverly, Mass.-based Affiliated Managers Group, said John Temple, a managing director with New York-based investment bank Cambridge.

And with the move offstage by distressed sellers came "the return of the strategic buyer" to the market in 2010, Mr. Temple argued.

That buyer, apparently, was increasingly looking overseas and eager to offer both traditional and alternative investment capabilities.

The transactions of the past year reflect "fundamental changes in the way investors are demanding their money be managed," noted David Heaton, a man-



Doug Goodman

BROADENING: David Heaton said this year's transactions showed a definite preference for global over local.

aging director with Morgan Stanley & Co.'s investment banking division in New York.

'Huge shift'

"Everywhere you see a huge shift toward interest in liquid, transparent and uncorrelated products," with a growing preference for global over local, and the relaxation of constraints on managers, driving strategic discussions, said Mr.

Heaton.

Convergence between traditional and alternative managers was a growing theme in 2010, agreed Benjamin F. Phillips, a partner and director of research for money manager consultant Casey, Quirk & Associates, Darien, Conn. Increasingly successful asset management will demand that all the skill sets offered separately in years past by traditional and alternative managers be

brought together, said Mr. Phillips, predicting "more convergence deals in 2011."

Freeman & Co.'s tally showed a record 102 deals in 2010 involving investments in alternative managers, topping long-only deals, at 85, for the first time, said Eric C. Weber, a managing director and chief operating officer with the New York-based M&A advisory and strategic management consulting firm.

Among Cambridge International's list of top 10 deals by value in 2010, Man Group's purchase of hedge fund investor GLG Partners came in second, at \$1.8 billion, with Royal Bank of Canada's acquisition of credit alternatives firm BlueBay Asset Management in fourth place, at \$1.5 billion; Affiliated Managers Group's \$890 million buy of private equity firm Pantheon Ventures was good for fifth place and Credit Suisse's purchase of multistrategy hedge fund firm York Capital Management was in sixth place at \$630 million.

As that smattering of bigger deals suggests, convergence isn't limited to traditional managers acquiring alternatives capabilities. "Both sides are looking across the fence" in an effort to diversify their businesses, and alternative managers are among the most active, particularly private equity firms that are either listed or thinking of going public, noted Aaron H. Dor, managing director of the financial institutions group with New York-based Jefferies & Co.

Two December announcements — private equity firm Apollo Global Management's plan to buy a 40% stake in the

The largest investment management transactions in 2010

All amounts are in U.S. millions.

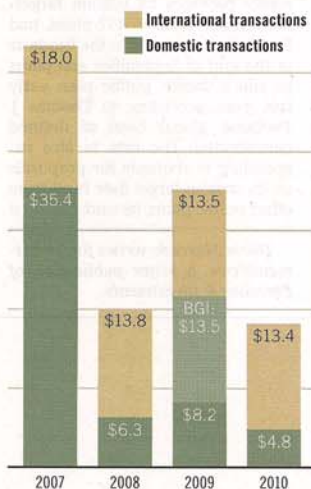
Acquired	Acquired assets	% acquired	Acquirer	Transaction value	Strategic rationale
DundeeWealth	\$41,900	82%	Scotiabank	\$2,300	Scotiabank, which already owned 18% of DundeeWealth, purchased the remaining 82% in this long-anticipated Canadian domestic transaction aimed at creating a wealth management powerhouse. Scotiabank will become the third-largest mutual fund provider among Canada's leading banks.
KBL European Private Bankers	\$58,200	100%	Hinduja Group	\$1,670	In the largest acquisition by an Indian group this year, Hinduja purchased the private banking arm of KBC to significantly expand its presence across Europe. Hinduja will provide access to growing markets in India, the Middle East and Asia. KBC sold KBL to increase its capital ratios following the receipt of bailout money from the Belgian government.
GLG Partners	\$23,700	100%	Man Group	\$1,600	Man Group completes the largest acquisition to date of a hedge fund manager in an effort to diversify from its flagship AHL quantitative fund at a time when both Man and GLG have struggled with asset withdrawals. Priced at a 55% premium to market, Man Group paid 24.4 times 2010 forecast after-tax earnings.
BlueBay Asset Management	\$40,500	100%	Royal Bank of Canada	\$1,500	Following up on its \$1.3 billion purchase of Phillips Hager in 2008, RBC demonstrates its commitment to being a global wealth management leader by acquiring this successful specialist in European credit and emerging markets debt.
Pantheon Ventures	\$22,000	100%	Affiliated Managers Group & Artemis Management	\$890	In the larger of a remarkable double announcement early in the year, AMG achieved its goal of substantially increasing its non-U.S. and alternative investments by acquiring this global private equity fund-of-funds manager.
York Capital Management	\$14,000	33%	Credit Suisse Asset Management	\$630	CS structured around the Volcker Rule to acquire a minority stake in this large hedge fund that specializes in event-driven and credit strategies, fitting well into its objective of becoming a premier global alternatives provider. For York, the deal extends its global distribution reach significantly.
Artemis Investment Management	\$16,100	100%	Affiliated Managers Group & Artemis Management	\$400	Respected U.K. equity manager Artemis finally achieves ownership stability and long-term autonomy following two previous changes of control in three years when Fortis acquired its parent, ABN AMRO, and BNP Paribas then acquired Fortis.
Jupiter Asset Management	\$29,600	34%	IPO	\$380	The successful IPO of this award-winning U.K.-based manager, partially owned by private equity firm TA Associates, is in marked contrast to rival Gartmore's troubles since it went public. Proceeds were used to pay off debt and expand the business.
Prudential Investment & Securities, Prudential Asset Management	\$3,900	100%	Hanwha Securities	\$360	Hanwha outbid other suitors to move up in the rankings of the crowded South Korean fund market, to fourth in AUM and third in total branches. U.S. life insurer Prudential Financial saw this as an opportunity to monetize assets viewed as not central to its core operations.
Rensburg Sheppards	\$18,400	53%	Investec	\$330	Investec continued its goal of expanding recurring revenues through the logical acquisition of the 53% stake in U.K.-based Rensburg Sheppards that it did not own. The combined private wealth platform provides more scale in a business of strategic importance to Investec.

Source: Cambridge International Partners Inc.

MONEY MANAGER M&A

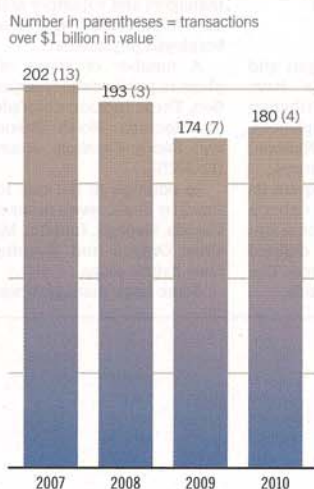
Investment management transaction scorecard Dollar figures are in billions.

TRANSACTION VALUE BY YEAR

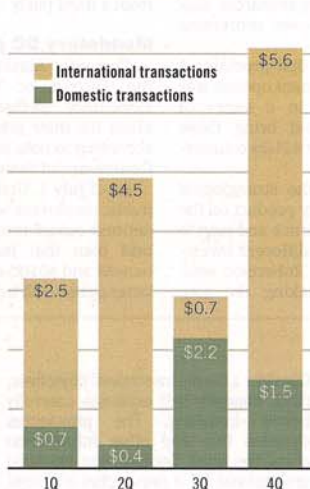


Source: Cambridge International Partners Inc.

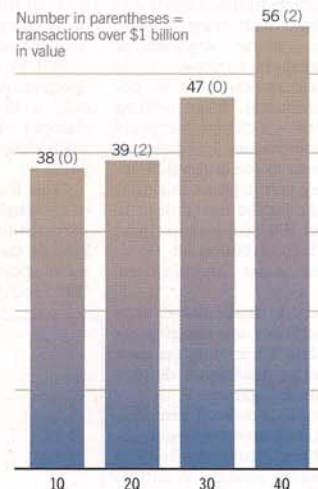
TRANSACTION NUMBER BY YEAR



2010 TRANSACTION VALUE BY QUARTER



2010 TRANSACTION NUMBER BY QUARTER



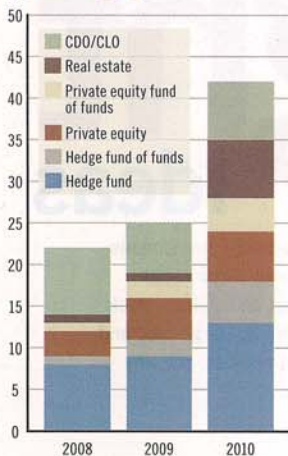
holding company of hedge fund-of-funds manager Lighthouse Investment Partners, and Carlyle Group buying a 55% stake in hedge fund manager Claren Road Asset Management — are examples of that trend, bankers said.

Those aggressive efforts to diversify are likewise leading alternatives firms to buy traditional money management businesses, as when publicly listed hedge fund-of-funds firm Fortress Investment Group announced in February it would acquire long-only bond shop Logan Circle Partners, noted Cambridge's Mr. Temple.

Still, even though Cambridge International's data found a record 49% of U.S.-based deals involving the acquisition of an alternatives firm in 2010, with interest in non-traditional strategies likely to grow, Mr. Temple said regulatory uncertainties probably padded the amount of alternatives-related transactions over the past year.

Mr. Phillips, meanwhile, said

U.S. alternatives manager transactions by category



Source: Cambridge International Partners Inc.

while he sees the convergence theme continuing to pick up steam — as larger alternatives firms increasingly seek stronger, more institutional distribution platforms — the melding of businesses with different approaches to managing money will remain “very difficult to pull off.”

More globalization

Globalization was another major theme investment bankers gleaned from the year's deal activity. Mr. Temple noted that for a second year in a row Canadian firms, which emerged relatively unscathed from the recent financial crisis, were among the ranks of buyers in top 10 deals, with Scotiabank's \$2.3 billion purchase of Dundee Wealth at the top of Cambridge International's list for the year, and Royal Bank of Canada's fourth-place BlueBay buy.

But two deals with Asian-based buyers also figured in Cambridge's top 10: Hinduja Group's \$1.7 billion acquisition of KBC European Private Bankers, and Hanwha Securities' \$360 million purchase of Prudential Investment & Securities, Prudential Asset Management's business in Asia.

In other activity, Religare Enterprises Ltd., a New Delhi-based financial services firm, made two investments in U.S.-based alternatives firms this year: Landmark Partners, a Simsbury, Conn.-based private equity and real estate fund-of-funds firm and Northgate Capital LLC, a Danville, Calif.-based private equity fund-of-funds firm.

Some bankers predict buyers from emerging markets with strong capital reserves will sport a higher profile in M&A activity over the coming years. “Asia will be a big focus in 2011,” predicted Casey Quirk's Mr. Phillips, with heavy-weight firms in the U.S. and Europe looking to establish local operations there but also with insurers and banks in countries such as India and China becoming increasingly active globally.

Morgan Stanley's Mr. Heaton

pointed to Tokyo-based ORIX Corp.'s November purchase of a stake in New York-based multi-strategy and hedge fund-of-funds manager Mariner Investment Group; Blackstone's September buy of a 40% stake in Brazilian alternative asset manager Patria Brasil and the October purchase by J.P. Morgan Asset Management unit Highbridge Capital Management of a majority interest in Gavea Investimentos, another Brazilian alternatives firm, as examples of global convergence.

Investment bankers remain upbeat about expected activity in 2011. Cambridge's Mr. Temple noted that an increase in deal value to \$8.1 billion in the fourth quarter, from \$2.9 billion in the third quarter, reflects growing confidence as global equity markets rebounded in recent months. He predicted that confidence will lead to more strategic deals.

Freeman's Mr. Weber said he expects a continued pickup in alternatives-related deals, as money managers strive to meet growing client demand for infra-

structure and compliance capabilities. He also predicted growing activity from private equity investors in money management firms who'll be looking to exit a number of investments that have been on hold due to the market's turmoil in recent years.

Mr. Phillips said the coming year's crop of deals could be fewer in number, but bigger and better structured, as money managers struggle to figure out the best way to achieve an alignment of interests in the more complicated firms they're melding. ■

Performance requires experience.
And we've been at it for 100 years.

Bentall Kennedy is the result of Canada's largest real estate investment and services firm joining forces with one of America's largest independent real estate advisors to provide clients with access to one comprehensive North American real estate platform. Together, we bring 100 years of perspective and experience to more than \$23 billion in commercial real estate.

more@bentallkennedy.com



www.bentallkennedy.com