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THE INTERNATIONAL NEWSPAPER OF MONEY MANAGEMENT

Doug Goodman

A SURPRISE: John Temple termed the growth of private equity-related deals 'staggering.'

SPECIAL REPORT MERGERS & ACQUISITIONS

Global manager activity down in 2015

By JAMES COMTOIS

In a year in which global mergers-and-acquisitions volume hit record highs, up 37% from 2014, M&A activity within the money management industry dropped, both globally and within the U.S.

While the total money manager M&A deals for the year rose, to 207 from 169, the value dropped to $23.6 billion from $33 billion in 2014.

Announced M&A deals involving U.S.-based money managers mirrored that, with $12 billion in value in 2015, down 29% from $16.9 billion in 2014. But the number of deals rose to 106, up from 79 in 2014, according to New York-based investment bank Cambridge International Partners Inc.

Deals involving the purchase of non-U.S.-based money managers totaled $11.6 billion through 100 deals in 2015, a 28% drop from the prior year's $16.1 billion across 90 transactions.

When looking at the top 10 money management M&A deals in 2015 ranked by price, half of the transactions were for U.S. companies.

Tax inversions and the need for economies of scale drove much of the overall M&A activity in 2015, factors that didn't drive deals in the investment management industry, Cambridge President John Temple said in a phone interview.

The money management indus-

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Investing

Buy-and-maintain credit strategy demand growing

Most clients coming from U.K., but global interest is on the rise

By SOPHIE BAKER

ON THE RISE: Andy Burgess is seeing a surge of interest from people 'waking up to the flaws in passive investment.'

Global money managers are seeing constant — and in some cases increased — demand for buy-and-maintain credit strategies from across the globe, as lower liquidity, cost concerns and the flaws in both active and passive credit management creep higher up the agenda of institutional investors.

Executives at money management firms said while U.K. clients have largely been the lifeblood of buy-and-maintain strategies, the U.S. is becoming a new hunting ground for allocations to these benchmark-agnostic, low-turnover, investment-grade credit strategies.

"Interest is accelerating," said Simon Males, head of global fixed-income distribution at Legal & General Investment Management in London. "We have a number of new buy-and-maintain investors from the euro region as well as U.S. dollar region – there is definite interest and execution."

Mr. Males declined to name clients. LGIM runs £54.3 billion in buy-and-maintain strategies.

Andy Burgess, London-based fixed-income product specialist at Insight Investment, said the money manager has seen client inflows into segregated allocations principally from the U.K., although buy-and-maintain is becoming more popular in the U.S. and Asia. Insight

SEE BUY ON PAGE 22

AT DEADLINE

Anthem sued on DC

Participants in the $5.1 billion Anthem Inc. 401(k) plan have sued plan executives, alleging breaches of fiduciary duties by paying "unreasonable" record-keeping expenses and failing to choose lower-cost investment options.

The suit seeks class-action status for participants.

In their lawsuit, participants criticized Anthem for its dealings with Vanguard Group, which is the 401(k) plan's record keeper and provider of most of the plan's investment options. Vanguard is not a defendant.

The complaint said Anthem paid "unreasonable investment management fees from excessively high-priced options" regarding Vanguard strategies The suit noted that Anthem made several investment lineup changes in mid-2013 to reduce expenses, including moving target-date funds to collective investment trusts from mutual funds and moving some

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NO STOPPING IT: Darren Spencer said portfolio adjustments will continue.

Hedge Funds

Investments up 5.5% in challenging year

New business strong despite drop in growth

By CHRISTINE WILLIAMSON

In a year that proved tough for many managers to produce high returns, institutional investor investment in hedge funds and hedge funds of funds rose 5.5% to $11.6 billion in 2015.

That's a big drop from the 21.2% growth rate in calendar year 2014, when assets in hedge funds and hedge funds of funds rose to $11 billion, based on analysis of *Pensions & Investments*' reporting.

By contrast, appetite for new investments remained strong in 2015, with dollars designated for hedge fund searches totaling $4.1 billion, up 107.8% from 2014.

The rate of terminations in 2015 jumped 304.6% to $5.7 billion, with 61% of the total terminations coming from hedge funds of funds as more investors continued to move to direct investment in hedge funds, separate account hedge fund-of-funds vehicles and lower-priced commingled hedge funds of funds.

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SOUND BITE

CROSSWATER REALTY ADVISORS' **TED LEARY:**

"There are far too many managers out there."

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Secondary market outlook: Recent market developments will shape, and to some extent already have shaped, the private equity secondary market into 2016. So write Sixpoint Partners' Eric Zoller and Andrew Gulotta in Industry Voices. Read the article at **pionline.com/Industry Voices.**

Active currency overlays: Employing a passive currency hedge is suboptimal and beset with potential problems. An active approach to managing currency risk can improve risk/return characteristics of the overall portfolio, Mark Astley, CEO of Millennium Global Investments, writes in Portfolio Management. See it at **pionline.com/Portfolio Management.**

Mark Astley

P&I TV: Hedge Fund Research Inc. President Kenneth Heinz discusses the impact rising rates will have on investor appetite for hedge funds and risk. Watch the video at video.pionline.com.

Chart central: See charts at **pionline.com/charts:**

- Private equity-backed IPO activity falls
- Modest rebound expected in commodity prices in 2016.

MERGERS & ACQUISITIONS

The largest investment management transactions of 2015

Ranked by transaction amount. All amounts are in U.S. dollars.

Firm acquired	Assets under management (billions)	% acquired	Acquirer	Amount paid (millions)	Strategic rationale
First Eagle Investment Mgmt. *New York*	$98.8	60%*	**Blackstone and Corsair Capital**	**$2,400***	Blackstone's first significant private equity foray into investment management, acquiring a majority stake in First Eagle in conjunction with Corsair Capital, provides a successful exit for TA Associates' 2007 leveraged recapitalization.
Pioneer Investments *Milan*	$243.5	67%	**Banco Santander, Warburg Pincus and General Atlantic**	**$1,985**	The combination of Pioneer Investments, Santander Asset Management and long-term distribution agreements from UniCredit and Santander creates a major new European asset management champion and brings to a successful conclusion a sale process for Pioneer and its parent UniCredit that began in 2010.
Amundi *Paris*	$1,021.5	22%	**Public**	**$1,795**	The largest European asset manager, Amundi, formed in 2010 by the merger of Credit Agricole's and Societe Generale's asset management divisions, has its initial public offering in November, with SG taking the opportunity to sell its entire 20% ownership stake.
Russell Investments *Seattle*	$266.0	100%	**TA Associates and Reverence Capital Partners**	**$1,150**	The London Stock Exchange Group settles for a much reduced price from private equity after China's largest securities firm, CITIC Securities, backed away from a $1.8 billion offer amid a collapse in its share price and investigations by the Chinese authorities.
American Century Investments *Kansas City, Mo.*	$149.3	41%	**Nomura Holdings**	**$1,000**	Nomura steps into CIBC's shoes acquiring its non-controlling stake in mutual fund manager American Century, thereby gaining access to the U.S. market.
Coutts International *Geneva*	$33.3	100%	**Union Bancaire Privee**	**$950***	Following the acquisition of the Swiss wealth management businesses of ABN AMRO in 2011 and Lloyds Banking Group in 2013, UBP acquires Royal Bank of Scotland Group's Geneva-based Coutts International. The final price will depend on the assets of the clients that transfer.
EnCap Investments *Houston*	$27.5	20%*	**Dyal Capital Partners (Neuberger Berman)**	**$750***	Dyal Capital Partners, part of Neuberger Berman's private equity platform, makes a big bet that oil prices have bottomed, acquiring a minority stake in EnCap Investments, the leading provider of private equity to upstream and midstream U.S. oil & gas companies.
DNCA Finance *Paris*	$16.6	71%	**Natixis (BPCE)**	**$625**	Natixis Global Asset Management acquires an initial majority stake that is expected to reach 100% in time as management sells down. It provides TA Associates another very rewarding exit from an investment only made in 2011.
The Mutual Fund Store *New York*	$9.8	100%	**Financial Engines**	**$560**	The original robo-adviser, Financial Engines, offering retirement planning and investment advice to individuals and 401(k) plan participants, beefs up its human advice component with this acquisition of 125 mutual fund retail stores.
BT Investment Management *Sydney*	$62.5	28%	**Public**	**$520**	Australian bank Westpac bolsters its capital ratios by selling nearly half of its ownership in the Sydney-based multiboutique while maintaining its existing distribution relationship.

*Estimated. Source: Cambridge International Partners

Managers

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try also didn't experience the megamergers some other industries experienced during the year.

Private equity players

One significant driver of money management M&A activity during the year was private equity.

In the U.S., more than half of the dollar volume – 52% – was driven by private equity buyers. Topping the list of the 10 largest acquisitions was The Blackstone Group and Corsair Capital LLC buying a majority long-term investment in New York-based First Eagle Investment Management LLC for an estimated $2.4 billion.

Boston-based private equity company TA Associates teamed up with New York-based minority partner Reverence Capital Partners for another big deal, the acquisition of Russell Investments, Seattle, for $1.15 billion.

"Private equity has been middling at the edges for some time. But to count for half of U.S. acquisitions, that's a staggering increase," Mr. Temple said. "Once private equity starts to get comfortable with an industry like investment management, then it's going to continue to invest in that."

Mr. Temple offered some reasons driving private equity's growing interest.

First off, there's a large overhang of limited money in commingled private equity funds waiting to be invested. In other words, capital raised in a private equity fund has a limited period of time in which to be invested.

That, Mr. Temple explained, has encouraged private equity firms to look beyond traditional industries where they can put their money to work. Investment management is an industry in which private equity firms have become more interested.

Janis Vitols, managing director and global head of asset management banking at Barclays Capital Inc. in New York, said something similar, noting that although private equity "has followed the sector for a long time ... the number of interested firms increased significantly after the crisis" as private equity firms "sought out cash flow-rich businesses" like asset management firms.

While private equity firms became more interested in asset managers since the global financial crisis, the level of interest for large diversified investment management firms among strategic buyers has declined, because they "generally prefer targets that offer a near-perfect fit in terms of size, ownership percentage and operating fit," Mr. Vitols said.

This has opened the door for private equity firms that tend to be more flexible around those criteria, Mr. Vitols added.

Many U.S. strategic buyers now have focused appetites and are looking for specific capabilities or incremental distributions.

"Since the financial crisis, strategic buyers have been interested in focused acquisitions. This has given private equity the room to buy these firms at a price that works from a private equity point of view," said Mr. Temple.

Not just buyers

But private equity firms weren't just buyers of asset management firms in 2015.

Elizabeth Bloomer Nesvold, founder and managing partner of New York-based investment bank Silver Lane Advisors LLC, said she saw a great number of M&A deals in which private equity was the seller.

Ms. Nesvold said that although private equity firms buying money managers is "a trend worth noting," she disagreed that 2015 was "their biggest year" in the money management M&A arena.

"I'd say 2010 and 2011 were when they were very active. But one of the key themes this year was some material exits from private equity firms," she said.

She cited TA Associates selling its stake in DNCA Finance to Natixis Global Asset Management, TPG Capital selling American Beacon Advisors Inc. and Lovell Minnick Partners selling a portion of its stake in Matthews International Capital Management LLC as examples of such exits.

In terms of U.S. strategic buyers acquiring only specific strategy or distribution capabilities that could be easily integrated and leveraged by their existing organizations, some examples include ALPS Holdings Inc., better

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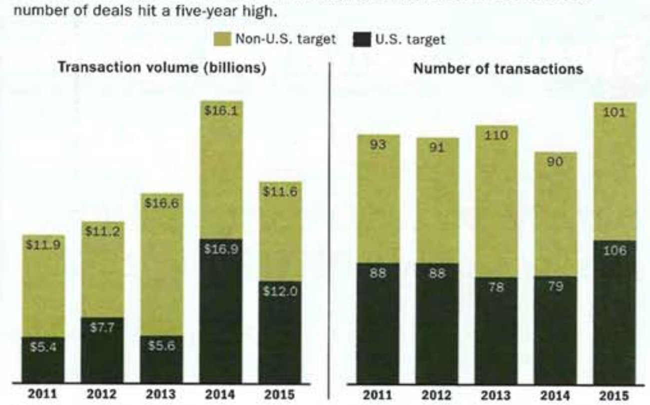
More, but smaller, transactions

Investment management mergers and acquisitions volume fell in 2015, but the number of deals hit a five-year high.



Source: Cambridge International Partners

MANAGER ROUNDUP

AMG takes minority stake in Baring Private Equity Asia

Affiliated Managers Group bought a minority ownership stake in Hong Kong-based private equity firm Baring Private Equity Asia, said spokeswoman Alexandra Lynn. Terms of the transaction were not disclosed.

Baring Asia's senior partners will continue to hold a majority of the equity of the business and direct the day-to-day operations of the company.

Baring Asia manages funds with more than $8 billion in assets. It specializes in growth-oriented investments, sponsoring management buyouts and providing capital to companies for expansion, recapitalization or acquisitions. Baring Private Equity Asia closed its Baring Asia Private Equity Fund VI at about $4 billion in February, a record amount for the firm and up 60% from the prior fund it closed in 2011.

Baring Asia will use the proceeds of the deal to grow the business.

AMG reported $593.8 billion in assets under management as of Sept. 30.

Lebenthal acquires Griffin Asset Management

Lebenthal Asset Management acquired Griffin Asset Management, spokesman Claudio Pannunzio said.

Terms of the transaction, which closed on Dec. 31, were not disclosed.

This deal brings Lebenthal's total assets under management to $2.5 billion. The acquisition of Griffin adds growth and income-oriented equity strategy capabilities to Lebenthal. Griffin manages $390 million in assets, according to its website.

Although Griffin is expected to retain its brand and independence, its staff, led by Douglas M. Famiglietti, president and chief investment officer, will move into Lebenthal's New York office. No additions or reductions to staff are currently expected.

Griffin was founded by Thomas A. Famigletti in 1994. In 2006, it merged with Hovey Youngman Associates. The firm manages separate accounts for clients as well as a mutual fund, the KF Griffin Blue Chip and Covered Call Fund.

Goldman fund buys piece of systematic trader FORT

Systematic trading manager FORT Management sold a 10% stake to Goldman Sachs Group's Petershill II private equity fund, which buys minority stakes in hedge fund companies.

FORT Management will remain an independent firm, quantitatively managing $1.6 billion in its flagship contrarian and diversified strategies for a largely institutional client base, said Alan Marantz, managing director, in a phone interview from the firm's Chevy Chase, Md., headquarters.

The deal was finalized on Dec. 24.

"We're elated to have Petershill join us as a partner," said Yves Balcer, co-founder of FORT in a news release, adding that "having such a formidable investor with significant resources aligned with us in further institutionalizing and developing the firm."

The remaining 90% of the firm's equity is employee-owned.

Andrew Williams, a Goldman Sachs spokesman, did not return a call seeking more information about Petershill's investment in FORT.

Argentem Creek completes spinout from Black River

Argentem Creek Partners completed its management buyout from Black River Asset Management and began business on Dec. 30, said a Jan. 4 announcement.

All 14 members of Black River's emerging markets credit hedge fund team moved to Argentem Creek, under the leadership of **Daniel Chapman**, CEO and chief investment officer; **Charles Friedberg**, president and chief operating officer; and **Angela Samfilippo Gorder**, global head of business development.

Messrs. Chapman and Friedberg were senior managing directors on the emerging markets credit team at Black River. Ms. Gorder was managing director at O'Brien-Staley Partners.

Investors in the former Black River emerging markets credit strategies – Cargill, two alternative investment managers and a single-family office – moved with the team to Argentem Creek, which manages about $500 million.

Ms. Gorder declined to identify the firm's investors.

The company is targeting institutional investors and estimates that it has about $500 million of additional investment capacity in its emerging markets distressed debt and special situations strategies.

Argentem Creek is headquartered in New York with offices in Minneapolis and London.

The move is part of a three-way spinout of Black River's business units into independent investment boutiques. Cargill, Black River's parent company, announced the move Sept. 28. Argentem Creek is the first Black River investment team to be established an independent company.

The other new investment firms – a fixed-income relative-value hedge fund manager, with assets of $1.8 billion, and a private equity company managing about $2.3 billion – are scheduled to launch before May 31, according to Cargill spokeswoman Lori Johnson.

Prior to the announcement of the breakup of the firm, Black River managed $7.4 billion, including $5.2 billion in hedge fund assets.

BNP PARTNERS UP WITH ASIAN MANAGER ORION

BNP Paribas Investment Partners formed a strategic partnership with Asia-based alternative investment firm Orion Partners.

The global money manager acquired a minority stake in the strategic partnership based in Hong Kong, via its incubation and alternatives specialist division, BNP Paribas Capital Partners. A spokesman for BNP Paribas IP said the size of the stake has not been disclosed.

The remainder of the business is owned by Orion Partners, he said. Orion Partners, which has more than $1 billion in assets under management, will continue to operate under its existing leadership and will remain independent in business and investment decisions.

Under the partnership, BNP Paribas Capital Partners and Orion Partners plan to develop and launch new strategies, to meet a growing demand for Asia-focused alternative investment funds, said a statement from BNP Paribas IP. The partnership will leverage BNP Paribas IP's platform and global distribution capabilities and Orion Partners' local expertise.

"The partnership with Orion Partners provides us with an excellent opportunity to broaden the exposure to the fast-growing alternative investment opportunities in Asia, managed by a leading Asian-based and Asian-focused firm," said Gilles Guerin, CEO of BNP Paribas Capital Partners, in the statement.

Orion Partners was advised by Berkshire Capital Securities on the transaction.

Report: Legg Mason in talks for stake in Clarion Partners

Legg Mason is in exclusive talks to buy a majority stake in real estate investment specialist Clarion Partners in a deal that would value the company at about $850 million, Bloomberg reported.

Under the terms being discussed, Legg Mason would buy 80% of the company from existing owner Lightyear Capital, said people with knowledge of the matter, who asked not to be identified because the information is private.

Clarion's management, headed by Chairman and CEO Stephen Furnary, would retain 20%, the people said. A deal could be announced as early as this month, the sources said.

A deal at that value would reflect a multiple of more than 12 times Clarion's earnings before interest, taxes, depreciation and amortization of $70 million last year, the people said. Publicly traded real estate investment companies in the U.S. trade for a median average of 7.09 times EBITDA, according to data compiled by Bloomberg. Legg Mason pre-empted an auction process to buy the company, the people said.

Clarion, which is based in New York and invests in office- and retail-related real estate, has about $38 billion in assets under management, according to its website. Lightyear and Clarion management bought Clarion Partners from ING Groep NV in 2011 for $100 million.

Spokesmen for Legg Mason and Lightyear declined to comment, while a representative of Clarion didn't immediately respond to a request for comment.

Managers

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known for its fund servicing capabilities, increasing its asset management business by acquiring private equity fund-of-funds manager Red Rocks Capital LLC, Denver; and Neuberger Berman Group LLC acquiring a New York-based private equity fund-of-funds business from Merrill Lynch Alternative Investments LLC.

Federated Investors Inc. acquired both Reich & Tang Deposit Networks LLC's and Huntington Bancshares' funds while BlackRock Inc. acquired Bank of America Corp.'s money market funds. Robert W. Baird & Co. found a global equity partner by acquiring Chautauqua Capital Management LLC in Boulder, Colo., and Victory Capital Management Inc. bulked up by announcing the acquisition of RS Investments, San Francisco, and its $18.9 billion in assets under management, from Guardian Life Insurance Co. of America, bringing its total assets to $54 billion.

U.S. buyers' interest in cross-border investments in 2015 was also mostly small and focused.

Both Legg Mason Inc. and BlackRock acquired infrastructure managers, RARE Infrastructure Ltd. in Sydney, Australia, and Infraestructura Institucional in Mexico, respectively. Janus Capital Group Inc. acquired Kapstream Capital Pty Ltd., a global bond manager in Sydney, and Raymond James Financial Inc. acquired Toronto-based exchange-traded fund strategist Cougar Global Investments Ltd.

"U.S. strategic buyers remain focused and disciplined in their approach," Mr. Temple said.

Global bank divestitures

Bank divestitures continue as an important factor globally as it has been for years, although not so much within the U.S.

"In the U.S., (bank divestitures as a trend) went away a few years ago, but outside the U.S., it hasn't gone away," said Mr. Temple, pointing out that four of the top 10 transactions represent such deals. For example, Australian bank Westpac Banking Corp. sold nearly half its ownership in the Sydney-based multiboutique BT Investment Management Ltd.

While cross-border transaction volume in which foreign entities acquired U.S. managers was down in 2015 from 2014, a number of notable deals did take place during the year.

One notable cross-border deal in 2015 included Nomura Holdings Inc.'s December announcement that it would buy Canadian Imperial Bank of Commerce's 41% stake in American Century Investments, Kansas City, Mo.

Another includes Mizuho Financial Group Inc.'s intention to purchase a 16% stake in San Francisco-based Asian investment specialist Matthews International Capital Management, which includes part of Lovell Minnick's minority stake in the company.

The CIBC deal aside, the biggest national contingent of inbound cross-border investors was the Canadians, with Sun Life Financial Inc. making two fixed-income acquisitions, one of duration specialist Ryan Labs Inc. and the other of insurance client specialist Prime Advisors Inc.

MORE TO COME? Elizabeth Bloomer Nesvold expects to see cross-border manager M&A activity increase in 2016.

These deals extend Sun Life Investment Management's third-party investment business, launched in Canada in 2014, into the U.S.

Fiera Capital Corp., Montreal, also continued its push into the U.S. by acquiring fixed-income manager Samson Capital Advisors LLC, New York, which Fiera combined with its 2013 acquisition of equity manager Wilkinson O'Grady & Co. Inc. to form a U.S. institutional platform called Fiera Asset Management.

Meanwhile, Toronto-based AGF Management Ltd. acquired the majority of an $800 million Boston-based exchange-traded funds strategist, FFCM LLC. "Canadian buyers were very busy," said Ms. Nesvold.

The only British cross-border acquirer in 2015 was Aberdeen Asset Management PLC. Aberdeen augmented its alternative offerings by acquiring FLAG Capital Management LLC, a $6.3 billion Stamford, Conn.-based manager of private equity and real asset solutions, and Arden Asset Management LLC, a fund of hedge funds based in New York with $5.9 billion in AUM.

Ms. Nesvold added that the U.S. appears "to be a safer market for some of the players outside of the U.S., so I expect 2016 to bring more cross-border activity." ■