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UAM Founder Swells Cash Pot for Managers

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For asset management firms looking for a shot of financing without giving up ownership, now might be a good time to talk to Norton Reamer. The founder and former CEO of United Asset Management now has nearly $200 million available to finance asset management firms. Reamer's new firm, Asset Management Finance Corp., has closed on one deal, with two more nearly finished and a goal of eventually closing on eight deals per year.

AMF uses a revenue-sharing finance plan that's similar to the one Reamer pioneered when he ran UAM. But unlike the structures used by UAM (now Old Mutual) and Affiliated Managers Group, Reamer's new company doesn't take any ownership stake in the managers it works with. "We come up with cash for them, in return for a fixed percentage of their top-line revenue for a terminating period of time," says Reamer, AMF's president and CEO. The money is provided through AMF's proprietary – and patent-pending – vehicles known as Revenue Share Interests, or RSIs. The revenue the firm gives up will range from 5% to 20%, and the time period will be between seven and 20 years. The firm does not give up any equity; AMF doesn't get a seat on the board of directors or any other feature of ownership.

The structure "enables independent firms to remain independent," Reamer says, "while still accomplishing generational transfers of equity, liquidity events for principals, spin-offs from large parent companies – things that in the past have required the compromise of the independence of the firm."

AMF announced last week that it has raised $100 million through a syndicate of lenders, led by Societe Generale and including ING Capital and City National Bank, bringing to nearly $200 million the total capital it now has available to hand out to asset management firms.

Asset management firms have other options for raising capital, of course. But deals involving private equity firms or other investors involve giving up ownership stakes, which an asset manager may not want to do. And bank loans can have other strings attached. Reamer says banks "don't tend to like intangible industries such as ours, so it's difficult to get the kind of financing you like." He adds that banks tend to want shorter-term deals, and ask for personal recourse as well.

A number of firms are looking to fund or otherwise support start-up managers. Rosemont Investment Partners, for example, earlier this year closed its second private equity fund aimed at start-up managers. And Stellate Partners, itself a start-up, offers to provide non-investment related functions in exchange for a minority equity stake in young firms. But AMF won't fund start-ups, Reamer says, citing two reasons. "First, we need a track record for the firm. And number two, the company needs to have margins. If a company has no profits, they can't afford to cede us some revenue."

AMF will finance firms with $500 million to $40 billion under management, though it will focus on firms between $10 billion and $30 billion. "These are firms that are large enough to be profitable, and yet small enough and unique enough to be worth keeping independent," he says. "In addition, we think there are untold numbers of potential spinoffs from larger parent companies. There were so many things done in the 1990s that weren't a very good idea."

The company closed late last year on its first, and so far only, transaction, a deal that allowed Oakland, Calif.-based REIT manager Adelante Capital Management to buy itself out from its parent company, Lend Lease. Terms of the deal, including the amount of the financing, the terms of the deal and the revenue percentage that Adelante will pay to AMF, were not disclosed.

Adelante CEO Michael Torres points out an added benefit of using AMF for financing compared to a private equity or other ownership structure. "The whole consent process that clients put you through" – obtaining client approval whenever a manager changes ownership – "is very disruptive to your client relationships. This minimizes that impact," Torres says.

Reamer says another pending deal should close by the end of this year, and another one should close soon after that. "We think we'll reach a steady rate of about eight deals a year," he says. He expects the deals to average between $20 and $25 million in the first few years, and larger after that. "We're prepared to do deals as small as $5 million or as large as $45 million to $50 million," he says. "But we think we'll average $20 million to $25 million."

He also thinks AMF will have plenty of financing deals to choose from. "There are between 100 and 130 transactions done each year in the investment management business that I would call invasive – acquisitions or mergers, things that really change the independent character of the firm," Reamer says. "We think there are lots of transactions to be done with our non-invasive technique."

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