

## Asset Managers Plug Into New Financing Model

by Chris Larson

Managers are showing stronger-than-expected interest in a financing model offered by Norton Reamer, the founder and former CEO of United Asset Management. His firm, Asset Management Finance, has closed on its second financing deal of the year, and Reamer says the second half of 2006 should be an active one as managers tap into the \$250 million in financing he has lined up.

AMF's model calls for managers to receive cash infusions of \$5 million to \$50 million, without giving up any equity or management control. Instead, AMF gets a fixed percentage of the manager's top-line revenue for a fixed period of seven to 20 years. The exact dollar amounts, percentage and length differs by deal.

The firm's latest financing deal, announced Wednesday, is with Opus Capital Management, a Cincinnati-based small-cap value shop with just over \$1 billion under management, most of it in institutional dollars. It's an 11-year deal, though the amount Opus received and the share of revenue that AMF will receive were not disclosed.

Opus president and co-founder Len Haussler says the AMF arrangement was especially attractive because it allows Opus to remain completely independent. "Another thing we like about it is that there's nothing that will change from the client's perspective," Haussler adds. "It's not a change of control." Still, he says, Opus made sure to notify all of its clients about the deal before it was made public. "It's good news, and we wanted to share that with our clients. We wanted to be proactive."

Firms that AMF invests in can do whatever they want with the money. "It tends to be linked to liquidity, diversification or setting up generational transfers," Reamer says.

Opus is 100% employee-owned, and Haussler says the deal "will allow us to diversify some of our holdings. We have a lot of our net worth tied up in the company. This allows us to take a little bit off the table, though we still clearly own the company." The AMF deal "also facilitates our long-term strategy of sharing some equity with key employees," he adds.

Earlier this year, AMF closed on a similar financing deal with Shapiro Capital Management, a \$2 billion value manager based in Atlanta. Terms of that deal were not disclosed. The firm's chairman and CEO, Sam Shapiro, was traveling and unavailable for comment Wednesday, but he calls the AMF model "innovative" in a statement released in February.

"We will be able to effectively transfer equity in our firm from one generation to the next while maintaining total independence and complete continuity of our management team," Shapiro says in the statement.

The Shapiro deal was the first one since late 2004, when AMF closed on its first transaction, with Oakland, Calif.-based REIT manager Adelante Capital Management. But Reamer says the pipeline is full. "Even though Opus is only our second deal this year, we do think we'll hit eight deals this year," he

says. “That’s been our long term-goal, and we weren’t sure we would make it this year, but now I think we will.”

Reamer doesn’t think there’s any specific trend driving the interest, just that his company is filling a need that had been going unfulfilled. “It is such an obvious and useful technique for firms that are independent and want to remain that way,” he says. “I think it’s a case of people getting to understand and feel more comfortable with the model. People are seeing it happening, and can talk with others about it.”

Managers seeking financing, especially start-ups, have other options, including the private equity firm Rosemont Investment Partners and Stellate Partners, which provides firms with non-investment-related functions in exchange for minority equity stakes. But Opus’s Haussler says he’s not aware of any suitable financing options that don’t require giving up equity. A bank loan would likely be short-term, and he notes that a typical bank “wouldn’t understand the industry like an AMG [Affiliated Managers Group] or AMF does.”

The firms AMF has financed so far have been smaller, with \$1 billion to \$3.5 billion under management. That size of firm “is not necessarily what we’re targeting, nor is that size a fundamental element,” says Reamer, who says AMF will talk to firms with anywhere from \$500 million to \$40 billion under management. “This could and will work with larger firms as well. We’ve been approached about some much larger transactions, though of course I don’t know yet if they’ll happen.”

AMF looks for established firms that it thinks will grow their revenues over the length of the deal, since AMF’s income will rise or fall as the manager’s does. The \$250 million that AMF has to invest comes from a number of banks and loan syndicates.