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## Financing Firm Readies More Capital for 2010

By Jay Cooper

Asset Management Finance closed an otherwise quiet 2009 by providing capital to four different asset and wealth management firms in December, and the firm expects to carry that momentum into 2010. The four transactions at the end of the year marked a foray into new territories for AMF, as it completed a transaction with its first UK-based firm, its first private equity manager, and completed the first deal in which it took an equity stake in a firm.

Traditionally, AMF has pitched itself as an alternative way for financial services firms to obtain capital to either cash out senior members or pursue growth initiatives. Instead of taking an equity stake in the firms it provides capital to, AMF agrees to share a set percentage of the firm's revenue for a set number of years. The firm has completed 18 transactions since its inception in 2003, and currently has \$500 million in capital invested in firms.

The four deals in December totaled \$200 million in value. Those deals included AMF's first investment in a private equity manager, and only the second investment in a hedge fund manager. AMF would not disclose terms of those deals, or even the names of the firms involved. The private equity manager is said to focus on growth equity, buyout and distressed investments, while the hedge fund manager was identified as a U.S.-based credit hedge fund manager. That is the second hedge fund manager AMF has invested in after FX Concepts, a currency absolute return manager.

"We are keen to grow that portion of our business," says Rob Jakacki, CIO for AMF. That does not mean that the firm will quit providing capital to traditional managers, however. "As I look at the pipeline for opportunities in 2010, I see a pretty good mix of alternatives and traditional, U.S. and non-U.S.," Jakacki adds.

The December investment in Towry Law, an independent fee-based wealth adviser in the UK, was AMF's first deal in Europe. Jakacki says he hopes the success of that deal will raise the awareness of AMF among other European managers. He says there are benefits to investing offshore, including currency diversification, as well as diversifying the client base served by the asset managers AMF partners with.

The fourth December deal for AMF was an investment in HighTower, a new independent brokerage boutique offering a platform to high-end advisors serving high-net-worth clients. That deal, which was previously reported, involved several other partners who also provided capital to HighTower.

The deal was significant for AMF because it marked the first time it took an ownership stake in a firm, instead of entering into an agreement where it shares a percentage of the firm's revenue. While going forward, Jakacki says AMF will usually be sharing in a percentage of an asset or wealth manager's revenue, he notes the HighTower deal "shows flexibility around that model."

Jakacki anticipates more deals ahead in 2010. “The pipeline is at a level we’ve never seen before. Four deals at the close of 2009 are evident of that momentum,” he says. Jakacki declines to discuss how much capital AMF was looking to put toward deals in 2010, but says there is definitely enough capital for the firm to have another month as big as December.

He says more firms are looking for capital, because they are finally “starting to think again about growth and how they’ll fund that growth.” In 2008 and most of 2009, firms were focused more on surviving the downturn and less on strategic initiatives that would need more capital, he explains.

Investment banking firms also noticed a slow down in deal flow in the asset management industry last year.

Research from Jefferies & Co., a global securities and investment banking firm, shows that in 2009, overall deal volume declined to 143 transactions, down from 219 in 2008. But an all-time high of \$4 trillion in assets changed hands, led by mega-deals such as BlackRock’s purchase of Barclays Global Investors.

Jefferies executives expect to see an increase in divestitures in the first half of 2010. “We expect divestitures to continue to play out through the first half of 2010 when the urgency of capital raising and strategic realignment of financial institutions should taper off,” says Aaron Dorr, a New York-based managing director within Jefferies’ Financial Institutions Group, in a press release from the firm. “We also anticipate aging owners of independent firms who missed the last bull market to seek to transact in 2010 given improving market conditions, asset flows and pricing.”

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