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Growth Strategies

The Many Faces of M&A In the Asset Management Business

By Lori Pizzani

Traditional mergers and acquisitions among asset management companies may be a bit passé these days. Affiliated marketing partnerships, revenue and equity sharing deals and sub-advisory adoptions are definitely in vogue, right alongside the more conventional outright company buyouts.

Some of the types of new expansion strategies include privately held investment management firms looking to partner with an outside investor in order to expand. Some prefer to sell an equity interest to a great marketing organization in order to focus solely on core portfolio management. On the other hand, others choose to hand over the broader investment management job and simply morph into a sub-adviser, or simply find an exit strategy altogether. Whatever the growth strategy, it seems that there is a model to suit them.

One new player, with a legendary,

veteran CEO, is making its way into the industry. **Asset Management Finance (AMF)**, a firm that was formed last October, is flush with \$90 million in start-up capital and ready to roll. The company is backed by **National Bank Financial**, a subsidiary of **National Bank of Canada** of Montreal, and **Pacific Life Insurance Co.** of Newport Beach, Calif. Pacific Life anted up \$60 million while National Bank contributed \$30 million. Each will have an equity interest in AMF and two seats on AMF's board of directors.

Asset Management Finance, based in both New York and Boston, hopes to pump liquidity into investment management firms seeking to expand, make acquisitions, launch new product lines or allow younger

partners to buy a stake in the firm, said **Norton Reamer**, the firm's president and chief executive officer.

Reamer is best known as the former founder, CEO and chairman of the board of **United Asset Management Corp. (UAM)**, which, for 20 years from 1980 until 2000, operated as a Boston-based holding company of other investment management firms. In its heyday, UAM had more than 40 asset management affiliates, buying out the firm's partners but retaining their services, and then splitting the firm's revenues 50/50 in

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perpetuity. In 2000, **Old Mutual** of London bought UAM for \$1.46 billion and the assumption of \$769 million in debt.

Prior to founding UAM, Reamer was CEO and president of **Putnam Investments**, where he started in 1967 as a fund manager, rapidly rising to become chief investment officer in 1970, president in 1975 and CEO two years later.

Now back at the helm of a new company, Reamer doesn't want to own several dozen investment management firms with assets of \$1 billion to \$40 billion. Instead, he wants to simply invest in them. The benefit of such an arrangement to his firm's partners is that they can monetize embedded franchise value at a lower cost of capital than through a traditional merger or acquisition, all the while maintaining their operational independence.



Same Old Needs, New Model

Asset Management Finance expects to address the capital-raising needs of privately held firms while allowing these firms to retain autonomy and ownership. AMF has structured its financing program so that it provides firms with necessary capital but doesn't take full ownership or even a controlling stake in a company. Instead, AMF takes a passive interest in the firm but signs a revenue-sharing arrangement with the firm between 5% and 25% that lasts a finite term from seven to 20 years, Reamer explained. At the end of the term, AMF and the companies go their separate ways with the original investment management firm retaining full control of the firm, Reamer said. "We won't own any of them. We will just own a claim on their revenue," he said.

AMF determines these revenue-sharing percentages by factoring the amount of proceeds it will provide, the firm's operating requirements and margins and what percentage of cash flow can be monetized. The concept is so unique that AMF has applied for a patent for its financing structure.

AMF expects to see a 25% annual return initially on its investments and has been out and about in the marketplace talking to potential companies in which it is interested in investing, said **Tennyson Oyler**, a spokesman for Pacific Life.

Reamer confirmed that he has been making "missionary calls" and has thus far seen about 90 firms. "We hope we will fill a vast gap among money management firms that would otherwise have to sell out to survive," Reamer said.

That's not to say that the old standby holding company model has been put out to pasture. **Affiliated Managers Group** (AMG) of Boston has been on the prowl, selectively bringing investment managers into its subsidiary fold. Last week, AMG

announced that it had signed an agreement to acquire the \$5 billion equity management business of **TimeSquare Capital Management** of New York, previously an investment management unit of **Cigna Corp.** of Philadelphia. The deal includes one orphaned mutual fund that will be merged into an AMG mutual fund, said AMG executives on a conference call announcing the acquisition.

Last year, Cigna announced its intentions to shed non-core businesses in order to focus on its healthcare insurance business. Earlier this year, Cigna sold its retirement benefits business to **Prudential Financial** for \$2.2 billion.

AMG's strategy is to offer independent firms a succession planning solution by typically purchasing a 60% interest in the business while the firm's top executives retain a 40% minority stake. AMG has 18 current subsidiary investment firms including **Third Avenue Management** of New York, and **Friess Associates** of Greenville, Del., advisor to the **Brandywine Funds**.

The purchase price for acquiring TimesSquare's equity business was not disclosed, but under its usual modus operandi, AMG will retain a 60% interest in the firm while a contingent of 11 employees from TimesSquare will retain a 40% stake. The deal is expected to close early in the fourth quarter. AMG did not purchase TimesSquare's fixed-income business.

In July, AMG announced it would purchase the 13 **Fremont Funds** with \$3 billion in assets managed by **Fremont Investment Advisors** of San Francisco. AMG sponsors two mutual fund families managing a combined 27 funds and \$5 billion in assets.

The Hallmark of Smaller Funds

At the smaller end of the investment management spectrum, **Reserve Management Co.** of New York, best known for its money market prowess, is seeking to acquire small, non-money market mutual funds that optimistic registered investment advisors brought to market in the late '90s. One year ago, Reserve's board of directors authorized the firm's own family of equity funds to

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change into the seven Hallmark Funds, each equity fund to be run by an outside manager and sold to both registered independent advisers and directly to retail investors.

Since then, Reserve has been targeting small funds with between \$15 million and \$30 million whose executives have realized that they have either "a great mutual fund but cannot get distribution or awareness, or have a not-so-great fund that is ticking away resources," said **Eric Lansky**, senior vice president of marketing at Reserve.

Reserve's plan is beginning to gain traction, based in part on the new compliance liability small firms are facing. Reserve has closed its first deal and expects to merge the diminutive \$15 million Segall Bryant & Hamill Mid-Cap Fund into the Hallmark Mid-Cap Fund later this year if shareholders approve the combination at an Oct. 27 shareholder meeting.

According to Lansky, three other deals are in the works with tiny funds either being merged into existing similar Hallmark Funds or into new Hallmark Funds created to accept those assets. Reserve is considering expanding its Hallmark series to include a value fund and perhaps a long-term bond fund, Lansky noted.

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