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FUNDS INDUSTRY VET SEES NEW AGE OF INDEPENDENCE

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NEW YORK (Reuters)

After decades of industry consolidation, more and more investment managers are opting for independence, according to veteran funds executive Norton Reamer.

Money managers and big banks don't always mix, said Reamer, who has managed investments or run fund companies for more than 40 years. Fund firms facing a generational transfer of leadership will seek alternatives to selling out control through a takeover or buyout, he said in an interview.

"The increasing trend is firms wanting to be independent," he said. "Their feeling is that being part of a larger entity didn't do that much for them and created a lot of things they didn't like that much. Their clients felt the same way."

Reamer, who helped make Putnam Investments one of the largest U.S. investment companies during the 1970s, now runs Asset Management Finance LLC. The five-year-old firm purchases "revenue share interests" from fund managers, providing capital the firms can use to cash out retiring partners, expand or finance a spinoff.

AMF finances up to 50 percent of the free cash flow of a fund manager in exchange for a slice of the firm's revenue for seven to 20 years. This approach lets more partnerships stay independent across generations, Reamer said.

"Fund managers no longer have to sell out to provide liquidity for their retiring partners," he said.

The approach marks a shift for Reamer, who acquired more than 55 fund firms in the '80s and '90s as chief executive of United Asset Management Corp. UAM had $200 billion under management when it was sold to Old Mutual Plc in 2000.

For more than 20 years, Wall Street firms, banks and insurers snapped up fund firms on the theory that they could generate steady fees. Banks said they could expand the funds by tapping their own client base and other business lines, yet the marriages seldom worked out as advertised.

"At one time, the thinking at banks was they'd manufacture all these products and then sell the products. The first people who didn't like that were the clients," Reamer said.

Big banks didn't deliver all the benefits promised, and fund managers chafed under the control of big corporations.

"The bureaucracy arrived on schedule, but all the additional distribution that was supposed to come with the deal turned out to be ineffectual," Reamer said. "You didn't get that much benefit from bringing them together."

Money managers produce best results working in small groups, generating profit for themselves, he said.

AMF got a boost in August when Credit Suisse bought National Bank of Canada's 80 percent stake in the firm for $384 million.

Since 2003, AMF has provided $315 million to 13 firms, gaining revenue generated by $50 billion of assets. Credit Suisse tripled AMF's equity capital and enlarged its credit line so it can fund more and bigger deals.

So far the average transaction has been $25 million, but recently the firm has been in talks with fund managers seeking more than $100 million. At least one client is seeking more than $200 million.

AMF helped Louisville, Kentucky-based River Road Asset Management, with $3.2 billion of assets, split from ABN Amro, Reamer said.

Money managers and banks have been parting ways in recent years. Citigroup sold its money management arm to Legg Mason in 2005, and Merrill Lynch sold its asset management division to BlackRock Inc the following year. The banks decided the units would be better off owned by money management firms, he said.

Looking ahead, more companies will exit the funds business during a period when markets are difficult, Reamer said.

"One can visualize plenty of banks thinking they might divest non-core businesses that are relatively valuable," he said. "We also think independence has taken on more luster, so we expect there will be some more spinoffs."

(Editing by John Wallace)