

Private eyes looking again at money managers, broker/dealers

September 09, 2010

By Mindi Westhoff

Asset managers and broker/dealers have seen an uptick in private equity interest in 2010, and observers believe spinoffs from bulge-bracket financial institutions will foster a healthy pool of investment opportunities.

Private equity's attraction to the asset management industry had been increasing for several years before taking a "hiatus" amid the worst of the financial crisis in 2008 and 2009 due in part to valuation issues, Rosemont Investment Partners managing director David Silvera told SNL Financial.

"But I do think it's coming back, and I think some of the firms who have been historical participants are going to continue to do deals, like we have," Silvera said. "I expect there will be some new firms that look at the asset class and are interested."

Rosemont recently provided an equity infusion to help Southern-Sun Asset Management Inc. with an employee buyout, and Silvera said he has seen an increase in recapitalization deals by private equity firms.

For as much as the financial crisis stalled investments in the space in years passed, Silvera said 2010 has seen a resurgence of activity as large companies begin to rethink their strategies in the asset management space following forced consolidation in 2008 and 2009.

"You have firms that ... ended up with redundant asset management capabilities," Silvera said. "So they're willingly considering spinning them off or carving them out, and there are some buyers or partners out there who are willing to finance that."

As firms look to sell those units, private equity firms are logical buyers, Lovell Minnick Equity Partners managing director Robert Belke told SNL Financial. With many companies concerned about losing their independence by selling to a strategic buyer such as a larger asset manager, Belke said management teams usually feel more comfortable in a transaction with a private equity firm instead.

"A deal with a financial buyer isn't going to change their lives necessarily," Belke said. "A strategic buyer can be a more scary option for them."

Silvera pointed to recent reports that UniCredit SpA is in discussions with potential buyers for its Pioneer Global Asset Management SpA, which he said would be a good investment for a private equity firm to hold for a few years and then sell to a strategic buyer.

"But I also think they could be attractive as a platform upon which the private equity firm could also add on other teams and strategies and then sell it — but hopefully sell a more valuable firm," Silvera said.

The increased private equity interest has not been limited to the money management space. Belke said deal activity in the securities

space has picked up meaningfully from even the early months of 2010, and his firm is in active discussions on deals with broker/dealers and asset managers.

"It really feels like prospective sellers today just feel better about their business and about valuations," Belke said, adding that the current wave of activity is the most he has seen since before the financial crisis.

Private equity firm Warburg Pincus LLC recently announced a \$125 million investment in broker/dealer Cortview Capital Securities LLC, while Aquiline Capital Partners LLC announced Sept. 1 that its funds invested \$225 million in CRT Capital Group LLC.

Additionally, Seward & Kissel LLP partner James Abbott, who often advises on such deals, noted that Arsenal Capital Partners LP led a group of investors who provided \$100 million to new fixed-income broker/dealer KGS-Alpha Capital Markets LP in August.

"I think the market is now stable enough that people aren't concerned about a huge drop off," Abbott told SNL Financial. "It's not great, but at least it's stable — I think [that] is where people's mind-set is. And there is at least some debt financing available."

As previously reported by SNL, concerns about finding an appropriate exit to private equity investments has historically served to keep some investors at bay. However, for Belke, the lack of an IPO window is not an area of concern, given the five- to seven-year length of Lovell Minnick's investments, and he expects that for many portfolio companies, the businesses will either see a sale to another acquirer or to management.

Abbott added that most late-stage private equity firms do not consider an IPO as their primary exit strategy, and he expects instead that the changing regulatory landscape could encourage a number of private equity firms to sell their investments in broker/dealers to what are currently midtier players in the space.

As large financial institutions look to shed various proprietary trading or hedge fund units soon to be restricted under the Dodd-Frank Act, Abbott said it is likely that private equity players will pick up some of those arms. Depending on the length of the investment, Abbott said many private equity firms could eventually look to sell those investments to middle-market nonbank institutions such as Evercore Partners Inc. or Fortress Investment Group LLC that are trying to grow their business lines.

"That tier is going to become sort of the next bulge bracket. ... They're another tier of large, and getting much larger, financial institutions," Abbott said. "[They] are taking advantage of the opportunity to bring in talent right now. They've been doing it for a while, and I think that's going to increase." *i*