

January 16, 2013

Asset Manager Transaction Review

Improved Transaction Activity in 2012

Aaron H. Dorr
Managing Director
Head of Asset Management Investment Banking
(212) 466-7734
adorr@sandleroneill.com

Christopher J. Browne
Managing Director
Asset Management Investment Banking
(212) 466-7735
cbrowne@sandleroneill.com

Transaction volume among asset managers increased for the second consecutive year, reflecting improving stock markets globally, increased M&A activity among independently owned asset managers seeking to avoid anticipated tax hikes, and the continued unwinding of non-core businesses by larger financial institutions. In total, 141 transactions were announced globally in 2012, up from 132 announced deals in 2011 and 128 in 2010. AUM transacted totaled \$1.5 trillion, up 16% from 2011 and 50% from 2010.

The S&P 500 climbed 16% in 2012, creating price appreciation for sellers, despite the continuing headwinds that much of the industry is facing from client flows that remained focused in less risky asset classes. Tactical deal making continues to far exceed larger transformational deals, with acquisition activity of businesses with assets under management between \$1 billion and \$10 billion the highest on record.

Pure-play asset management companies continue to be the beneficiaries of diminished competition for acquisitions, a trend we expect to continue. Asset managers were the acquirers in more than 50% of all transactions, the first time that this percentage exceeded 50% in well over a decade, as larger financial institutions continue to be net sellers of asset management businesses.

Alternative asset managers remain a large contributor to transaction activity. As in 2011, 39% of deals involved alternative asset managers as sellers. The mix, however, was very different in 2012 as fund-of-hedge-fund and private-equity transactions reversed the previous year's trend by being up markedly, while sales of hedge fund and CLO managers dropped sharply. This reversal reflects current industry trends, including the winding down of the consolidation opportunity in the CLO sector and the consolidation in earnest of the fund of hedge fund industry.

While transaction activity was at a three-year high, buyers continued to favor deals closer to home. Interest among foreign buyers in European managers was expectedly low given the lack of overall economic stability in the region, leaving local consolidators as the default buyers. In-market buying in Europe increased 50% and represented over 80% of European volume. Though the Europeans were the predominant buyers locally, they also sought opportunities to diversify away from the European crisis, increasing their purchases in the U.S. more than threefold in 2012.

While the desire to avoid anticipated tax increases may have nudged sellers to the table in 2012, we expect transaction volume to remain strong in 2013 as active buyers continue to fill out their platforms. Although buyers are more discerning, due diligence is more intense, and transactions take longer to complete, we believe that the forces driving consolidation and corporate pruning should keep sellers and buyers active in 2013.

Measured by assets under management, the largest global asset management transactions announced in 2012 were:

- Janus Capital Group's sale of a minority stake to The Dai-Ichi Life Insurance Company (\$153 billion AUM)
- The Carlyle Group's IPO (\$147 billion AUM)
- The sale of TCW Group by Societe Generale to a fund of The Carlyle Group and TCW management (\$127 billion AUM)

- Bridgewater Associates' minority stake sale to Teacher Retirement System of Texas (\$120 billion AUM)
- The sale of Dexia Asset Management by Dexia SA to GCS Capital (\$100 billion AUM)

In February, Sandler O'Neill will release its annual white paper providing an in-depth review and analysis of 2012 transaction activity, as well as a forecast of activity and the trends driving it in the coming year.

Sandler O'Neill is proud to have advised on and raised capital for the following asset management companies in 2012:

October 2012

Vermillion
ASSET MANAGEMENT
has sold a 55% interest to

THE CARLYLE GROUP

Financial Advisor to Vermillion Asset Management

August 2012

THE CARLYLE GROUP

has acquired

TCW Insight that works for you.™

Financial Advisor to The Carlyle Group

April 2012

ROCHDALE
INVESTMENT MANAGEMENT

has been acquired by

CITY NATIONAL BANK
The way up:™

to form an \$18 billion private wealth manager

Financial Advisor to Rochdale Investment Management

February 2012

ENVESTNET

has acquired

Tamarac
the freedom to grow your business®

\$54,000,000

Financial Advisor to Envestnet

May 2012

THE CARLYLE GROUP

Initial Public Offering

\$671,000,000

Bookrunner

April 2012

 **OAKTREE**

Initial Public Offering

\$380,250,000

Co-Manager

February 2012

 **WISDOMTREE**

Follow-on Offering

\$92,658,000

Co-Manager

* * *

This report has been prepared and issued by the Investment Banking Group of Sandler O'Neill + Partners, L.P., a registered broker-dealer and a member of the Financial Industry Regulatory Authority, Inc. The information contained in this report (except information regarding Sandler O'Neill and its affiliates) was obtained from various sources that we believe to be reliable, but we do not guarantee its accuracy or completeness. Additional information is available upon request. The information and opinions contained in this report speak only as of the date of this report and are subject to change without notice.

This report has been prepared and circulated for general information only and presents the authors' views of general market and economic conditions and specific industries and/or sectors. This report is not intended to and does not provide a recommendation with respect to any security. This report does not take into account the financial position or particular needs or investment objectives of any individual or entity. The investment strategies, if any, discussed in this report may not be suitable for all investors. Investors must make their own determinations of the appropriateness of an investment strategy and an investment in any particular securities based upon the legal, tax and accounting considerations applicable to such investors and their own investment objective. Investors are cautioned that statements regarding future prospects may not be realized and that past performance is not necessarily indicative of future performance.

This report does not constitute an offer, or a solicitation of an offer, to buy or sell any securities or other financial instruments, including any securities mentioned in this report. Nothing in this report constitutes or should be construed to be accounting, tax, investment or legal advice.

Neither this report, nor any portion thereof, may be reproduced or redistributed by any person for any purpose without the written consent of Sandler O'Neill.

© 2013 Sandler O'Neill + Partners, L.P. All rights reserved.