

# WEALTH MANAGEMENT Insider™

Quarterly discussion topics surrounding the Wealth Management Industry

Fourth Quarter 2002

<http://www.berkcap.com/research>



Wealth Management Insider is distributed electronically on a quarterly basis. To subscribe or unsubscribe, contact:

Elizabeth Bloomer Nesvold  
Director  
Berkshire Capital Corporation  
535 Madison Avenue, 19<sup>th</sup> Floor  
New York, NY 10022

Email: [enesvold@berkcap.com](mailto:enesvold@berkcap.com)  
Voice: 212.207.1000  
Fax: 212.207.1019

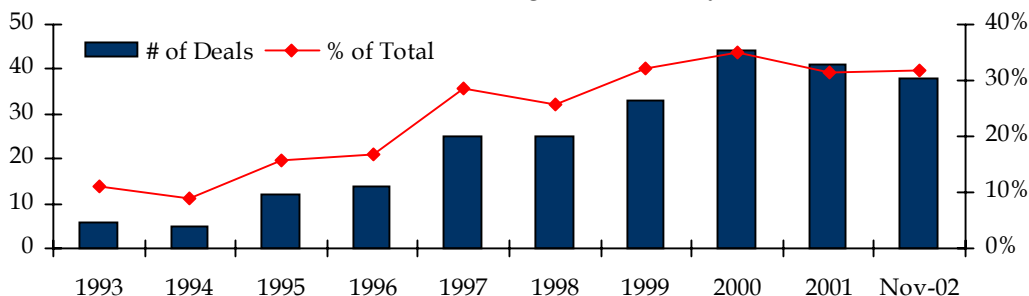
© 2002 Berkshire Capital Corporation. All rights reserved.

Berkshire Capital Corporation is a private investment bank focused on providing merger & acquisition and strategic advisory services to the financial services industry.

Some information presented in this publication may be obtained from third-party sources considered to be reliable. Sources are not required to make representations as to the accuracy of the information, however, and consequently, Berkshire Capital Corporation cannot guarantee its accuracy.

## DISCUSSION TOPIC: Who's Behind the Acquisition Interest?

**Background.** Acquisition activity in the wealth management arena has escalated considerably over the last several years, from what was once historically perceived as a relative backwater of the investment management business to a focal point of interest today. As detailed in the graph below, there has been a dramatic change in the number of transactions represented by this sector as well as its contribution to total transactions in the broader investment management industry.



Continued on page 2

## TRANSACTION SPOTLIGHT: Legacy South, Inc.

Year Founded:	1996
Total Client Assets:	\$300 million
Lead Product:	Core equity
Partner:	Northern Trust Corporation (TK: NTRS)

**Company Descriptions.** Based in Atlanta, **Legacy South, Inc.** is focused on providing its clients with professional management and solutions for creating, maintaining and transferring wealth. The firm currently serves 120 high net worth families and individuals, offering a comprehensive range of wealth management services including investment management, wealth transfer planning and estate settlement services. **Northern Trust Corporation** is a multibank holding company headquartered in Chicago with a network of offices in 12 states, international offices in five countries and nearly 9,500 employees worldwide. Northern Trust is one of the premier providers of personal fiduciary, asset management, private banking, master trust/custody, global custody and treasury management services.

**Partnership Benefits.** Northern Trust acquired Legacy South to expand its national platform, entering a key market to extend their strong Florida presence (27 offices representing \$21 billion in client assets). This transaction provides the principals of Legacy South and their clients with additional products, research support and ancillary wealth management services. The Northern Trust affiliation complements the firm's strong reputation and cements their ability to offer full-service inter-generational wealth management. ☺

TIMES CHANGE.  
PRINCIPLES DON'T.

## BERKSHIRE CAPITAL CORPORATION

New York | Philadelphia | Cleveland | Denver | London



Harking back to the 1980's, what few transactions that occurred in the sector involved "investment counselors" and were consummated with local banks and trust companies, with national initiatives dominated by three prominent trust organizations: **U.S. Trust**, **Mellon** and **Northern Trust**. During the 1990's the landscape began to change as the appeal of the high net worth market—with its extraordinary client stability, relatively robust fees, highly attractive demographics and new asset flows—became more apparent to the rest of the financial world. Several regional players joined in with the leading trust companies to pursue investment counsel firms. **Legg Mason** acquired several firms including **Gray Seifert** and **Bartlett & Company**, **Fiduciary Trust** expanded into Florida with the acquisition of **Trust Company of the South**, **United Asset Management** acquired a number of high net worth operations complementing its institutional focus, and **Wilmington Trust** made a few acquisitions to begin expanding geographically outside its traditional mid-Atlantic base.

**Massachusetts Mutual** was one of the early insurance companies to push into the area with its acquisition of **David L. Babson**. Toward the end of the decade, several financial players began to focus on a national or regional roll-up strategy. **Convergent Capital** was the most successful of these, making thirteen acquisitions of mostly personal investment counsel firms and a trust company. **WealthTrust** has focused on regional acquisitions and expansion consistent with its parent company's (**Regions Financial**) southeastern footprint in the brokerage and banking areas.

**Current Market.** With respect to the broader financial services market, the past several years have provided a sobering wake-up call from the exuberance of the late 90's. Mutual fund managers, once a highly sought after investment management sector, have generally experienced asset volatility and significant outflows. These organizations have watched in frustration as their premier clients divert significant sums from funds to separate account platforms with customized management addressing the specific tax and investment needs of the individual. The traditional institutional pension managers have had to live in an environment where new asset flows have been essentially non-existent, and have sought to develop

the individual side of their business as a means of continued growth and expansion. Banks, insurance companies and brokerage firms have all focused on migrating clients toward products that have consistent fee income rather than their historical commission or spread-based products. The clear trend that emerges is one of continued strong flows of assets into the individual separate account market, and an increased sensitivity to after-tax results. Such growth in the face of a difficult market environment has heightened the interest in the broader wealth management industry, which includes wealth consulting, financial & estate planning and the more traditional investment counseling.

In the post-90's era, some of the more prominent steps have been the acquisitions of **Fiduciary Trust** by **Franklin Resources** and **U.S. Trust** by **Schwab**. Additionally, several organizations have taken significant steps toward creating national investment operations including **Boston Private Bank** (acquiring **Cunningham, Henderson & Papin**; **Westfield**; **Sand Hill Advisors**; **RINET**; **E. R. Taylor**), **First Republic Bank** (**Trainer Wortham**; **Froley Revy**; **Starbuck Tisdale**; **IFG**) and **Phoenix Life** (**Roger Engemann**; **Walnut**; **Capital West**). **Bank of New York** has made several acquisitions in its tri-state footprint and **Amvescap** has begun to focus on the wealth market after historically immersing itself in the institutional and funds arena. **Credit Suisse** is one of the first international players to make a significant move into the market with the acquisition of **Frye-Louis** in Chicago.

With the premium valuation offered to banks with significant fee income, there are an increasing number of banks and trust companies looking at expansion of their trust and private banking efforts, with a mindful eye toward the multiple expansion effect. Among the banks to watch are some of the California banks like **Wells Fargo**, **City National**, and **Silicon Valley Bank**, and east coast players such as **Wachovia** and **BB&T**.

The new business market may be highly competitive and the securities markets unusually volatile, but this is the golden age of the wealth management market. For independent firms, there has never been a greater array of alternatives available as they considering a strategic linkage. ☺