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UBS Global is likely safe

Analysts say the giant money manager too valuable to be sold

By **Thao Hua**

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ZURICH — **UBS Global Asset Management** is likely to emerge intact even as its parent company is battling one of the most serious shareholder activism challenges to its integrated business model, analysts and other industry experts said.

"The asset management (business) ... has critical mass, with the prestige factor ... it's a mammoth player, and I don't believe that (UBS) would sell a jewel of its business," said Elizabeth Nesvold, founder of investment banking boutique Silver Lane Advisors LLC, New York.

Luqman Arnold, former UBS AG president, is leading a campaign to separate the company's investment banking and global wealth management and business banking units to maximize share value. Such a breakup could claim the asset management division, which is run separately from global wealth management, as one of its victims.

Mr. Arnold, chairman of London-based activist asset manager Olivant Ltd., also is suggesting the parent company might raise capital by selling the asset management unit. The unit — with 891 billion Swiss francs (\$885 billion) in worldwide assets as of Dec. 31 — could be worth \$9 billion to \$11 billion, several analysts estimated. It generates about 10% to 11% of the company's total pretax profits, according to analysts. UBS' global wealth management unit had 2.1 trillion Swiss francs in assets under management at the year-end 2007.

Mr. Arnold's campaign stems from UBS' exposure to the U.S. subprime debacle, which has pushed share prices down about 30% in 2008 as of April 3, when the letter was issued. UBS has had to write-down a total of \$37.7 billion, the largest amount of any investment bank so far.

Symptomatic of industry

Said John Fraser, chief executive officer of UBS Global AM based in London: "What's happened (to UBS AG) is happening to the banking system as a whole and (parent company) UBS has been part of that situation," he said. "We're going to continue



Serge Henri/Bloomberg News (Fraser) John Fraser (left) believes UBS Global will remain part of UBS AG despite Luqman Arnold's battle with the parent.

expanding as one the three key businesses integrated within UBS. There are terrific synergies (for asset management) by being a part of UBS. I don't see that changing."

Ben Phillips, managing director at New York-based investment bank Putnam Lovell, a division of Jefferies & Co., agreed the next few months will determine whether financial institutions in general are forced to sell non-core assets in order to raise capital if the credit crisis deepens.

"UBS is one of many firms that may find themselves faced with breakup debates in the coming months," Mr. Phillips added, "and asset management — given its relatively high valuation — will play a central role in such discussions."

But other observers are confident that the worst of the write-downs is behind UBS. As a result, the company will not be forced to seek additional capital by selling the asset management division, at least in the medium term, analysts and investment bankers said.

Georg Sanders, a banking analyst at WestLB AG, Duesseldorf, Germany, believes a sale of UBS' asset management is unlikely.

"Clients are more and more demanding. They want very complex products," Mr. Sanders said. "In many cases, (these products) can only be arranged with an investment bank. In this respect, asset management benefits from the synergies with investment banking."

But recent weak performance in some of UBS AM's strategies might leave parts of the division more vulnerable to a sale, banking analysts said. In 2007, institutional asset outflows totaled 16.3 billion Swiss francs, partly because of weak performance across a range of strategies, including certain core/value equity, fixed-income and multiasset strategies, according to the company's annual report. About 60% of UBS Global AM's assets under management are institutional.

"The nature of the institutional client base is all about "what have you done for me lately,"" said Ms. Nesvold. "They need to turn performance around in the underperforming products. If they can't, the prospect of a unit disposition becomes increasingly higher."

Mr. Fraser said: "We're clearly paying the price for some underperformance, and I stress it's only in certain strategies within equities and fixed income."

Revamp in 2006

A management overhaul that began in 2006 addressed the performance issues as well as "regenerated the leadership group" to help diversify investment capabilities, Mr. Fraser added. The firm launched an infrastructure fund in 2006, strengthened the quantitative equity team and increased resources in its international growth equity group. New markets were also targeted — including China and Brazil. Private equity is being considered as a new offering, and existing lower-margin passive management strategies may be expanded due to their show strong potential as a source of growth, Mr. Fraser said.

One of the most prominent personnel changes so far this year was the departure of Brian D. Singer, former managing director and head of the global investment solutions division based in Chicago. He left the company in March by mutual agreement, according to Mr. Fraser. Mr. Singer was replaced by Curt Custard, who was previously global head of multiasset solutions at London-based Schroders PLC. Tom Madsen, former co-head of

equities based in Chicago, also left earlier this year and was replaced by John Leonard, who was promoted to head of equities from co-head of equities based in London. William Weng in March was appointed as head of active quantitative equities, a new position in New York. He was head of the quantitative equities group within Credit Suisse's asset management division, Zurich.

Selling the asset management division as a whole would be difficult, if only because the size of the business limits the number of qualified buyers. Potential buyers who may be interested and might be in a position to acquire such an enormous asset manager include: Barclays PLC, HSBC Holdings PLC, Allianz SE, State Street Corp. and **Legg Mason Inc.**, according to several investment bankers focusing on the asset management industry.

"You would think the situation is ripe for a breakup, and has all the earmarks of the Citigroup problem," said John Siciliano, managing partner at Grail Partners LLC, New York, referring to Citigroup Inc.'s efforts to shed non-core businesses and its 2005 decision to swap its asset management business for Legg Mason's securities brokerage and capital markets business. "However, I believe it is unlikely ... that UBS would do a complete sale of the (asset management business).

Contact Thao Hua at thua@pionline.com