

## OPENING DID II SAY THAT? INEFFICIENT MARKETS

● Niche Banks Expand

### BANKING

## BEYOND BOUTIQUES TIRED OF BEING THE LITTLE GUYS, NICHE BANKS EXPAND THEIR REACH

● Ken Moelis is quick to say the financial services firm he founded in 2007 after leaving UBS is no boutique. With offices in Boston, Chicago, London, Los Angeles, New York and Sydney, more than 260 employees and clients all over the globe, Moelis & Co. has “crossed the Rubicon to become a global financial advisory firm,” he asserts.

Boutiques have seen their stature rise in the recent shake-out on Wall Street. The sudden passing of renowned deal maker Bruce Wasserstein, the CEO of Lazard & Co. — the grandfather of boutiques — raised questions around the future of that firm and marked a time for wider reflection on the status of boutiques as a whole. As these niche investment banks figure out what they want to be when they grow up, different strategies are emerging.

New York-based Greenhill & Co., founded in 1996 by

Bob Greenhill, is in the process of hiving off its merchant banking business, which will be run as a separate company, to focus on opportunities in advisory. Byron Trott, meanwhile, is charting a different course for Chicago-based BDT Capital Partners. The firm he started in 2009 after 25 years at Goldman Sachs will focus on merchant banking as well as advisory work. He has raised \$2 billion in capital and will advise privately held, family-owned companies and wealthy families — a client base he developed at Goldman, where he gained fame as Warren Buffett’s banker. Trott says the larger boutiques are “in a race to hire the most bankers and create the next Goldman Sachs and the next Morgan Stanley,” but he’s going to stick to his niche.

Many boutiques are building up their restructuring practices (often the large banks avoid this area because it conflicts with other lines of business). Evercore Partners, for example, advised companies involved in three of the five largest bankruptcies in 2009: CIT Group, General Motors Corp. and

chemical company Lyondell-Basell. In pursuing this business, Evercore is going head to head with Lazard, which generated an impressive \$279.3 million in revenue from restructuring for the first nine months of this year. No wallflower at the restructuring party, Moelis’s firm currently is advising the struggling state-owned conglomerate Dubai World on its refinancing.

Moelis sees further opportunity for boutiques given what he calls an “unbundling” of the financial services industry. The large commercial banks, he says, are moving away from the traditional client-focused

investment banking model that promotes superstar bankers and tailored advice, toward a more cost-effective standardized approach. As that happens, Moelis says firms like his will be there to fill the void.

However, at least one head of advisory at a major bank, who declined to be named, questions the notion that boutiques are gaining meaningful market share. Instead, he argues, these smaller firms are merely fighting over the same portion of the business that has always tended to gravitate toward the independents.

Bankers at boutiques, however, argue that the collapse of Lehman Brothers Holdings, and the acquisitions of Bear Stearns Cos. and Merrill Lynch, completely changed the playing field, opening a window for boutiques.

The real test, though, will come when M&A activity picks up again. Whomever wins that business will show which firms really have crossed over to the other side. —I.R.—S.



Ken Moelis sees greater opportunities for boutiques

## DID II SAY THAT? THE (THEN) FUTURE OF ASSET MANAGERS

# '91

**MARCH 1991** — In the cover story, “Money Management’s Brave New World,” *Institutional Investor* Contributing Editor Julie Rohrer wrote something that rings as true today as it did then: Asset growth, having tripled in the previous decade, was slowing. “Clients are tougher,” noted Rohrer, “and new markets are harder to crack.” Then she posed a question: Is there still money to be made?

Her answer was a conditional yes. Money management boutiques would become “endangered species,” but large, multiproduct — if not multinational — organizations with diversified distribution channels would prosper. Rohrer was right, of course, and that trend continues, but on a far grander scale. At the time of the story, J.P. Morgan Investment Management managed \$63 billion; today the renamed J.P. Morgan Asset Management manages \$1.3 trillion. A wave of consolidation is creating asset management behemoths of a once-unimaginable size. BlackRock’s acquisition of Barclays Global Investors in June created a firm with assets of \$2.7 trillion. Now the question is: Is there still money to be made on that scale?

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