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THE NEW HOUSE OF LAZARD

CEO Ken Jacobs is rebuilding the bank's clout by attracting fresh talent and expanding in emerging markets.

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LAZARD

CALMLY AND QUIETLY, CEO KEN JACOBS IS REBUILDING THE BANK'S CLOUT IN THE POST-WASSERSTEIN ERA BY BOLSTERING HIS TALENT AND EXPANDING IN EMERGING MARKETS.

By Charles Wallace

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GREECE HAS BEEN A NIGHTMARE FOR BANKS OVER

the past year. The country's debt crisis has hammered the creditworthiness of European lenders, which hold large quantities of Greek government bonds. It has also roiled financial markets, hitting the trading operations of big international banks in London and New York and undermining their stock prices, as investors fear a default could be Europe's "Lehman moment."

For Lazard, however, the Greek crisis has presented nothing but opportunity. The investment bank has played a key role in helping to restructure the country's massive debts by serving as chief adviser to the Athens government. Matthieu Pigasse, who heads the bank's sovereign advisory business, counseled Finance Minister Evangelos Venizelos on a July agreement that would have banks and investors swap their bond holdings for new securities, with an average haircut of 21 percent. And in recent weeks Pigasse shuttled between his Paris base and Athens as part of the negotiations that produced a new restructuring plan late last month that will raise the haircut on Greek

"WE NEVER MADE MONEY BY increasing the leverage of our balance sheet and taking risks. We make money when we do things that our clients find valuable."

—Ken Jacobs, Lazard

bonds to 50 percent. Such write-downs promise steeper losses for the banks but not for Lazard. Based on customary practice, the firm's advisory fee will be tied directly to the size of the haircut achieved.

For Pigasse, who advised Argentina on restructuring its debt after the country's 2002 default, the Greek deal is just the latest in what promises to be a thriving business of advising overstretched governments on how to reduce their debts. "In a nutshell, Lazard has become the worldwide leader in public debt restructuring," he says with French bravado.

The transformation of government advisory from a sleepy backwater largely confined to African and South American nations to a burgeoning first-world business is just one of the ways that CEO

Kenneth Jacobs has been pursuing a subtle but profound makeover of storied Lazard since he was thrust into the job in 2009 following the sudden death of famed deal maker Bruce Wasserstein.

Jacobs has pushed to expand Lazard's business in emerging markets, an area where the firm has lagged many of its larger rivals. In recent months Lazard has hired a Chinese mergers and acquisitions expert, Yan Lan, to head up its investment banking business in that country and tapped a senior French executive, former Cie. de Saint-Gobain CEO Jean-Louis Beffa, to serve as its chairman in Asia. Lazard ranked ninth in M&A advisory in the Asia-Pacific region, excluding Japan, in the first nine months of this year, with \$52 million in revenue, according to data provider Dealogic.

Lazard has also been moving to bolster its activities outside of its traditional strength, large-scale M&A. Jacobs has been beefing up his capital markets advisory business, an area where the firm distinguishes itself from most rivals by advising companies on balance-sheet issues and equity offerings but not underwriting deals. That independent model has gained sway in recent years because of some of the abuses at the heart of the great financial crisis, which saw investment banks design and sell mortgage-backed securities, derivatives and other products that quickly went bust. In one notable win, Lazard advised the U.S. Treasury Department on the \$20 billion initial public offering of General Motors Co. stock late last year. (It didn't hurt that Steven Rattner, the Obama administration's special adviser on reorganizing the auto industry, was a former partner.)

The bank's money management business has achieved particularly strong growth. Over the past nine years, Lazard Asset Management has more than doubled the amount of money it runs, to \$136 billion. The unit generates almost half of the firm's total revenue and three quarters of its operating income. Ashish Bhutani heads the unit and serves as vice chairman of the group.

More than the performance of any particular business unit, the greatest mark of Jacobs's reign has been his ability to refresh Lazard's talent bench and restore a common sense of purpose to a firm that suffered from divisive power rivalries before and during the Wasserstein years.

The firm has attracted a number of high-profile professionals from rival banks this year, including Timothy George, a top M&A rainmaker from archrival Greenhill & Co.; Gary Howe, former co-head of UBS's financial institutions group; and Peter Kuo, who had been head of capital-raising in Asia for Cowen & Co. Virtually all of the top ranks of the firm are now filled with bankers younger than the 53-year-old Jacobs — a change from the days when Lazard relied on a relative handful of aging stars. Not that Jacobs can be accused of ageism: He has also pulled back into the fold a few of those stars of old, including Felix Rohatyn, the veteran rainmaker who left Lazard to serve as U.S. ambassador to France in the late 1990s; Gerald Rosenfeld, who ran Rothschild's North American business from 2000 until 2007; and David Verey, former chairman of Lazard's London office.

"He has made us a cohesive group, he has brought logic and common sense to the process, and he's proven to be a good leader — and I think he's going to get better," says Washington attorney Vernon Jordan, a Lazard board member who backed Jacobs for the top job when Wasserstein died.



Antonio Weiss (above) leads Lazard's investment banking business; Matthieu Pigasse is building up the group's sovereign advisory activities



office, with its stunning view of Midtown Manhattan. “We never made money by increasing the leverage of our balance sheet and taking risks. Consequently, there is nothing to unwind and nothing to restructure. We make money when we do things that our clients find valuable.”

Such clients have been numerous of late. In addition to its Greek mandate, the bank this year has advised Medco Health Solutions on its \$29 billion takeover offer from Express Scripts, Progress Energy on its \$26 billion merger with rival Duke Energy Corp. and Italy's Wind Telecom on its \$21 billion combination with Russia's VimpelCom. The bank even scored a mandate last month to advise the unsecured creditors of the Los Angeles Dodgers baseball team, which filed for Chapter 11 bankruptcy protection in June.

Lazard's performance is part of a broader revival among independent advisers. Lauren Smith, a New York-based bank-

ing analyst at Keefe, Bruyette & Woods, says independent advisers such as Lazard, Rothschild and Houlihan Lokey accounted for 30 percent of the M&A market in 2009, up from just 10 percent in 2000.

“The company is in good shape, and they are delivering on some of their promises to Wall Street,” says Douglas Sipkin, banking analyst at Ticonderoga Securities in New York. He cites the firm's efforts to cut back on compen-

sation costs, which dipped by 1.1 percentage points, to 58.7 percent of operating expenses, in the first three quarters of this year. “They are doing well, but things just need to be better in the global economy for them to drive home their earnings' leverage,” Sipkin adds.

LAZARD'S SMOOTH PERFORMANCE TODAY IS A FAR

cry from the dissension that reigned in the late 1990s. The company was founded in 1848 as a dry-goods store in New Orleans by three Jewish brothers who emigrated from France. The brothers returned to France and set up Lazard Frères & Co., which expanded into the bullion trade and then opened offices in London and New York, which eventually became separately controlled and managed houses. The firm produced some of the titanic figures of the mergers and acquisitions world, including André Meyer, the legendary deal maker who headed the New York office for thirty years; Rohatyn, who along with Meyer virtually invented the modern M&A deal by helping ITT Corp. acquire Avis Rent-a-Car in 1965; and Rattner, a

“In my view, Lazard under Jacobs has shown a dramatic improvement over what it was under Wasserstein,” says Richard Bove, banking analyst at Stamford, Connecticut-based Rochdale Securities.

The firm's results compare favorably with those of many of its larger rivals, which have suffered from reduced trading activity, higher volatility and tighter regulatory constraints. Lazard's net income was essentially flat in the first nine months of this year, at \$177 million, on a 3 percent rise in revenue, to \$1.42 billion; a sharp drop in restructuring business affected the results. Revenue for Lazard's core businesses showed solid growth, though. M&A and capital markets advisory revenue, which represent nearly 40 percent of the firm's business, were up 17 percent in the first three quarters, at \$610 million, while asset management generated a similar 17 percent revenue gain, to \$678 million.

“We have a model which doesn't really have to change much for this environment,” Jacobs says, looking out of his Rockefeller Center

former New York Times reporter who became a media banker without rival.

But rather than cooperate in cross-border deals, which should have been the firm's strength, the three houses of Lazard were often at odds with one another, competing for fees. Michel David-Weill, scion of the family that founded Lazard, began the process of unifying the firm in 1999 by spending \$650 million to buy the minority stake in Lazard London from Pearson, the conglomerate that owns the Financial Times. By early the next year, the three houses had merged.

Yet fierce rivalries persisted. The tension between New York, the source of most of the profits, and Paris, which wielded outside influence, was causing revolt in the ranks. Rohatyn had left to become ambassador to France, and Rattner, then deputy chairman, departed in a blaze of negative publicity after arguing with David-Weill about the firm's governance. Many New York partners chafed under the imperious management style of David-Weill, who would single-handedly — and seemingly arbitrarily — decide bonuses at year-end. Meanwhile, David-Weill's efforts to maintain family control of the firm fell apart when his son-in-law, Édouard Stern, bolted after quarreling with him about the firm's future direction. (Stern was later murdered in Geneva by his mistress after what she described as an evening of sadomasochistic sex.)

In a bid to secure the firm's future, David-Weill made a proposal that stunned Lazard's long-serving partners: He wanted to merge with Wasserstein Perella & Co., an upstart boutique headed by the hard-charging Wasserstein, a high-energy deal maker nicknamed "Bid 'em up Bruce" for his alleged propensity to push clients to overpay for deals. The partners balked, and the idea was dropped.

David-Weill installed William Loomis, a 26-year Lazard veteran, as CEO in a bid to smooth hurt feelings caused by the merger of the three houses, but the firm's troubles only increased and he resigned after a year. In 2001 a desperate David-Weill once again turned to Wasserstein, who had just sold his business to Germany's Dresdner Bank for \$1.4 billion. He gave Wasserstein broad powers to run the firm in the manner he felt best, but the two men soon began to squabble.

Lazard's central problem was that the business of investment banking had changed dramatically with the growth of full-service institutions like Goldman Sachs Group and

Morgan Stanley, which had gone public to fuel their trading operations, and the abandonment of the Glass-Steagall Act, which unleashed competition from big banks such as Citigroup and JPMorgan Chase & Co. These firms had much larger balance sheets and were providing capital to corporations as part of their M&A services — something Lazard could not do. More important, they were paying huge bonuses financed in part by trading activities and could attract the cream of Wall Street talent.

Wasserstein set about remaking Lazard in his own image, stalking the hallways and pushing aside a number of David-Weill's acolytes. Gerardo Braggiotti, a senior Lazard partner in Milan who regularly brought the firm a large slice of Europe's M&A business, left after a few months, accusing Wasserstein of going back on his promise to make him CEO of Europe. Half the Milan banking staff followed Braggiotti out the door.

To gain full control, Wasserstein needed to get rid of David-Weill. To that end, he took Lazard public with a 2005 IPO that forced David-Weill to sell his controlling interest. Not only was Lazard no longer an old-school partnership, but it became a public company with stock that could be awarded to star performers as part of their compensation packages, bringing it in line with companies like Goldman and JPMorgan. As part of the IPO, Wasserstein promised that the firm would reduce compensation to 57.5 percent of its revenue from the 74 percent paid in 2004. There was controversy in the firm because Wasserstein's compensation — the firm awarded him \$96.3 million in restricted stock in 2008 to secure a five-year employment agreement — meant there would be less available to reward other high-ranking executives.

Wasserstein helped Lazard regain its lost position in the M&A league tables with such dramatic deals as Kraft Foods' \$19 billion takeover of Cadbury last year, a rare instance of a foreign company proposing an all-equity acquisition of a British company.

REN JACOBS, WHO EARNED A BACHELOR'S degree in Economics from the University of Chicago and an MBA from Stanford Business School, spent four years at Goldman Sachs before joining Lazard in 1988. He worked his way up the ranks as a specialist in health care companies. Over the years he became banker to such blue-chip companies

as Colgate-Palmolive Co., L'Oréal and IBM Corp. (a position he still maintains despite his CEO responsibilities). He met Wasserstein while representing France's L'Oréal in 1995 on its \$508 million purchase of Maybelline, a cosmetics company that Wasserstein Perella had acquired in a buyout a few years before. The two men became friends. In addition to sharing a vocation, they were both married to French women. (Wasserstein would later divorce his wife, Claude, while Jacobs remains happily married to Agnès Mentre, a former Lazard banker who went on to produce films, including *The Wrestler*, which won an Academy Award for Mickey Rourke, and the Michael Moore documentary *Fahrenheit 9/11*.) Jacobs took over Lazard's North American operations just as Wasserstein was being installed.

Although Jacobs and other Lazard executives acknowledge that Wasserstein was a deal wizard who launched many important initiatives at Lazard and hired some talented people — including Gary Parr, a former Morgan Stanley banker considered to be the dean of financial services M&A — he was a difficult boss. According to William Cohan, who worked with Jacobs for 17 years and wrote his own history of Lazard, *The Last Tycoons*, Wasserstein drew up a list of what he called "the walking dead" of bankers who would be turfed out after the IPO.

After Wasserstein's death the Lazard board chose Jacobs as his successor after only three weeks of deliberations, according to Jordan, a Democratic Party insider who came to Lazard after leading then-president Bill Clinton's defense against impeachment charges. Although some members favored seeking a star rainmaker from outside the firm to lead it, Jordan says that would have been a mistake. "He has proven to be a good leader because he is one of us, he came from the pack," he says.

Jacobs somewhat diplomatically plays down his differences from Wasserstein, saying only that he has tried to "manage the firm in a transparent and collegial way." Lazard is run by a committee headed by Jacobs that comprises a close circle of top executives, including general counsel Scott Hoffman; Matthieu Bucaille, who took over as chief financial officer in April; COO Alexander Stern; and asset management boss Bhutani. Although the firm is no longer a partnership, it operates like one in the way

senior executives deal with one another.

William Rucker, who heads the London office, describes Jacobs as “primus inter pares,” or first among equals, a contrast to Wasserstein’s “more presidential” style. Jordan recalls flying home from a Paris conference with Wasserstein, who jetted back from Europe in a sumptuously outfitted private jet. When he recently accompanied Jacobs on a European swing, Jordan was surprised to find the CEO traveling commercial (though Lazard does keep a NetJets private plane on retainer).

Rattner, who worked closely with Jacobs for many years as his boss, says that “people like to write about the larger-than-life personalities like Wasserstein and Joe Perella, but Ken is not like that. He is certainly highly intelligent and quite cerebral, but he doesn’t wave his arms and put on a show. He doesn’t get on radar screens much because he doesn’t have the weird personality quirks and eccentricities that a master of the universe is supposed to have.”

A former employee who asked not to be named says the New York headquarters tends to dominate Lazard more than in the past, when rainmakers in London and Paris had more freedom to take their own initia-

independent advisers in the top ten.

Although Lazard has always had industry experts, Jacobs has been handing increased responsibility to these sector specialists and downplaying star rainmakers. “It’s no longer a star business in the way we used to be able to name those relatively few people who controlled companies,” Rohatyn recalls in an interview.

Lazard has an entirely different struggle on its hands as it tries to get its business off the ground in China. The bulge-bracket banks were established there long before Lazard, which had an operation in Hong Kong. Jacobs maintains that the advisory business is only good when developing markets mature, because nascent markets need capital first, and Lazard has found that investing too early can lead to big losses.

Earlier this year, though, Jacobs decided Lazard could wait no longer. The firm hired Yan, a Beijing-based M&A expert, from Paris law firm Gide Loyrette Nouel, where she advised foreign companies on doing business in China as well as Chinese companies seeking acquisitions overseas.

Yan says she spends a lot of her time educating Chinese clients about how a Western takeover actually works. “They have trouble

to raise capital in the new offshore renminbi market in Hong Kong and Chinese companies raising capital on the mainland.

The Francophile Jacobs made an unusual decision when it came to installing a chairman for Asia. Although rivals like Morgan Stanley and Goldman Sachs have planted senior executives in Beijing, Hong Kong and Singapore, Lazard decided to name Beffa, former CEO of French conglomerate Saint-Gobain, as the firm’s Asia chairman, based in Paris, not Hong Kong. Asked why, Jacobs says he wanted to “get the business off the ground very quickly.” He adds that he expects the flow of business between China and Europe and China and Africa to exceed that between China and the U.S. “Look, we’re not Morgan Stanley; we’re not Goldman Sachs,” Jacobs says. “We just don’t do things the way other firms do them.”

The affable Beffa, who has been on the job only three months, believes Lazard has to move fast to position itself to be stronger in five areas of Asia: India; Southeast Asia, including Singapore and Indonesia; greater China; South Korea; and Japan. The firm is only up to speed in Japan and India, he says.

“What we need to do is make a strategic, long-term and patient investment in Asia,” Beffa says. “The past of Lazard was New York, London and Paris, but the future should be Europe, the U.S. and Asia, especially China.”

In listing the firm’s recent successes, Jacobs gives special credit to the asset management business. It has become a real strength for Lazard at a time when M&A activity is still relatively soft. “The business has diversified significantly,” says asset management chief Bhutani. “It used to be historically a very North American—client-focused business with little offices around the world. Today almost half of our clients are outside the U.S.” Asset management now does a big business in places like Germany, Japan and South Korea. Even in the relatively small Australian market, where the government has privatized social security, the business has grown to \$18 billion from \$2 billion.

“We want to be in the local investment business in every country we operate in,” Bhutani says. “We want to export our investment skill set to clients around the world, and we want to bring in our investment expertise from anywhere in the world to that local market.”

One area Lazard Asset Management has

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— Steven Rattner, former Lazard partner

tives. They now report to Jacobs through a management committee and through Antonio Weiss, the New York-based global head of investment banking. Jacobs acknowledges the shift, but he predicts that M&A activity will increasingly involve European and emerging-markets companies, and says Lazard will reflect any such evolution.

While Jacobs has been pressing his staff to seek out new opportunities in the developing world, he hasn’t ignored Lazard’s business in the U.S. and Europe. The bank’s M&A business, driven by deals such as the Medco Health Solutions–Express Scripts merger, has earned \$360 million in fees, according to Dealogic, putting it in tenth place for revenue from global M&A. There were no other

understanding an overseas target company because of cultural differences, accounting issues and regulations,” she says. “They really need advice to guide them through the whole process of M&A.” She expects them to learn quickly, though. Yan predicts that in five years most of her business will be with Chinese companies seeking overseas acquisitions. As a sign of things to come, she cites the June deal in which Fosun International, China’s largest privately owned company, bought a 7.1 percent stake in French tourism operator Club Méditerranée.

Yan recently added to her team by hiring former Cowen & Co. executive Kuo as head of capital markets advisory in Asia. He will focus on advising foreign companies seeking

excelled at is investing in emerging markets. As recently as 2003 it managed just \$300 million in emerging-markets investments. Today the number is closer to \$45 billion. “Emerging markets have become a separate allocation for pension funds rather than just being part of a global allocation,” Bhutani says. Emerging markets account for 25 percent of assets now, but he expects that to grow as pension funds increase their allocations to the developing world.

Another area Jacobs gives high marks to is the sovereign debt business, run by Pigasse in Paris. “I don’t think there is another firm that is really close to us in terms of the franchise on that,” he says.

Pigasse says the secret of the firm’s success is that it only advises governments and never takes the side of creditors in transactions. These customers may be behind on payments to their international creditors, but restructuring their debts can be a lucrative business, according to Rafael Molina, a senior partner at U.K.-based Newstate Partners, which advises sovereign governments on their debts. Although fees have been coming down in recent years, compensation can depend on a number of variables, such as how many banks are involved and how much debt needs to be restructured.

The sovereign advisory business began in the 1970s when Lazard and two other firms, S.G. Warburg & Co. and Lehman Brothers, began offering advice to Indonesia’s state-owned oil company, Pertamina, on a debt restructuring.

Eventually, Warburg was purchased by UBS and Lehman began debt financing, so both dropped their debt advisory business, leaving Lazard to rule the roost. It was involved in major debt restructurings in Algeria and Nigeria, and helped BTA Bank in Kazakhstan with its 2009 restructuring, which famously required creditors to take a \$6.8 billion haircut on the bank’s bonds.

Pigasse says the sovereign advisory business has changed dramatically in the past couple of years. First, the geographic footprint is completely different. Instead of advising Morocco and Ivory Coast on privatizations, Lazard is now consulting with

governments in Belgium, Germany and the Netherlands on major debt problems.

“Debt itself has changed in the last few years,” Pigasse says. “Ten or 20 years ago, it was syndicated loans and banks. Now it is tradable market debt.”

Lazard has beefed up its Paris-based sovereign debt unit by hiring Pierre Cailleteau, former head of Moody’s Investors Service’s sovereign debt rating group; Mark Walker, a sovereign debt specialist at New York-based law firm Cleary Gottlieb Steen & Hamilton; and Daniel Cohen, a famed economist and expert on sovereign debt at the École normale supérieure, one of the most prestigious French institutions of higher learning.

Pigasse won’t disclose financial results for his group, but he says the ramping up of staff is a clear sign that revenue is growing rapidly.

Jacobs intends to reinvigorate the capital markets advisory business, which, apart from a highly successful restructuring prac-

The IPO advisory fits neatly with Lazard’s M&A advice business, whose clients may be looking at both the possibilities of selling themselves or going the IPO route. For example, Landis+Gyr, a privately held Swiss company that makes electronic metering equipment, hired Lazard to advise it on an IPO but instead decided to sell to Japan’s Toshiba Corp. in a \$2.3 billion deal in May. As Tuft points out, the fees for the deal will show up in Lazard’s M&A revenue even though Landis+Gyr started as a capital markets client.

One oddity of Lazard giving IPO advice is that the firm spun off its broker-dealer function, Lazard Capital Markets, at its own IPO in 2005 because LCM was not making any money. It is now owned by former Lazard partners, and the two firms work closely together.

Jacobs says that after a huge turnover of personnel, LCM is now doing better than

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— Jean-Louis Beffa, Lazard

tice run by Barry Ridings and Terry Savage, had been a small part of the firm’s activities. But as the results of the first three quarters revealed, Lazard is finally getting some traction in that business: Revenue was up 10 percent, to \$76.2 million, compared with the second quarter of 2010. Those increases primarily came in two areas: the private fund advisory group, which helps private equity firms line up investors, and underwriting fees from IPOs.

The global capital markets business is run by Thomas Tuft, a former head of equity capital markets at Goldman whom Wasserstein hired just weeks before his death in 2009. Tuft says the firm now advises companies on a wide range of issues concerning how to optimize their balance sheets. “In the last year or so, we have dramatically expanded that into the IPO advisory business, where we’ve had success and traction,” Tuft says.

it was at the IPO. If the right opportunity came along to reintegrate the firm into Lazard, he says, he would consider it. But for the moment, Lazard is content to take the origination fees on IPOs and give the distribution fees to LCM.

Jacobs gets reflective when you ask him about the future of investment banking. He says the big institutions, such as Goldman Sachs, are going to have to significantly reengineer their models because of all the new regulations coming out of Washington, like the Dodd-Frank Wall Street Reform and Consumer Protection Act. But this could be good news for Lazard, he adds.

“The headwinds that the industry is facing are potentially tailwinds for us,” Jacobs says. “We are an institution that doesn’t create revenue from a balance sheet. We create revenues from clients who we are advising, and if they do things, we do things.” ●●