We introduce ten leveraged transactions that embody many of the key themes of an eventful year in European private equity.

BONHAM-CARTER GOES COVENANT-LITE

TA Associates' investment in Jupiter Asset Management marked the largest private equity-backed MBO of a fund management business to date.

Fund management, says Ajit Nedungadi, is the ultimate people business: "To invest in a fund manager, you have to truly understand the people. Without them, there isn't much there."

Nedungadi: sector knowledge

Nedungadi oversees the European operations of TA Associates, a global private equity firm headquartered in Boston. Earlier this year, the London-based deal maker led the firm's equity investment in the management buyout of Jupiter Asset Management, a firm with approximately £20 billion under management and 450 employees. At £740 million (€1.06 billion; $1.53 billion), it was the largest ever private equity-backed transaction in the fund management industry globally.

On the whole, private equity firms have so far shown relatively little appetite for the sector. TA is an exception. The firm completed its first fund management deal in the 1980s and has sponsored another 12 businesses in the industry since then. In other words, the firm is a specialist in a sparsely populated part of the private equity business.

Armed with a wealth of relevant experience, TA first came into contact with Jupiter three years ago and began building a relationship with the company's management team led by Edward Bonham-Carter, a prominent figure in the City of London. "After the initial introduction we met with them at least ten times, before the call finally came late last year that the business was up for sale," recalls Nedungadi.

Commerzbank, Jupiter's owner, was initially seeking an exit by trade sale or IPO. Management, says Nedungadi, were keen to take control of the business themselves and began conversations with potential partners including TA. Despite being less well-known in Europe than some other interested parties such as mid-market buyout specialist Candover, TA prevailed – in no small part, according to Nedungadi, because of its sector expertise and good relations with Bonham-Carter and his colleagues.

STRONG BRAND, STICKY EARNINGS

To support the MBO, TA agreed to acquire a significant minority stake, with management purchasing the bulk of the business. HSBC and The Royal Bank of Scotland underwrote £510 million of facilities, including a £425 million, non-amortising eight-year senior loan to finance the deal. One of just a handful of covenant-lite LBOs to get done in Europe before the credit markets slowed, pricing was aggressively flexed down in an oversubscribed syndication, according to Philip Dixon, a director in HSBC's leveraged and acquisition finance team in London. Post buyout, Jupiter had total leverage of 3.5 times earnings.

For loan investors, a fund management firm investing in equities is not the most obvious credit to buy into. This is in part because there haven't been many leveraged deals in the sector, and also because their performance is correlated to cyclical trends in the markets that their underlying products have exposure to.

However, says HSBC managing director Graham Tufts, Jupiter had some attractive characteristics. "The brand is well known, and the firm is very strong in UK retail funds, which means earnings tend to be quite sticky. The track record is excellent, too, with more than 50 percent of the Jupiter funds in the upper quartile and the remaining ones mainly in the top half of the market," Tufts explains. TA's sector knowledge and experience as a minority shareholder were also convincing.

In 2006, Jupiter's UK rival Gartmore had been acquired in a buyout sponsored by US private equity firm Hellman & Friedman. A refinancing for Gartmore followed in 2007. This, too, was helpful: when Jupiter came to market, several debt investors were already educated about the sector.

TA's Nedungadi says in opting for a covenant-lite structure, Jupiter secured the best-possible terms available in the market at the time. He says at 3.5 times earnings, leverage on the deal was "very moderate" and in line with the innate conservatism of many fund management professionals. And: "We don't usually rely on leverage to make our return. The upside will come from investment performance and from Jupiter gathering assets disproportionally

Bonham-Carter: comforting track record

to their market share: that's what good fund asset managers do."

It's a strategy Nedungadi and his colleagues are unlikely to have employed for the last time. He says: "As minority shareholders, we see ourselves as influencers backing winning management teams rather than control investors. It works well for us, but I don't expect us to encounter too much competition from private equity going forward: people who require control in their deals will have a hard time in this sector." ■

STATS AT A GLANCE: JUPITER ASSET MANAGEMENT

Type of transaction: Management buyout
Country: UK
Date: April 2007
Enterprise value: £740 million (€1.06 billion; $1.53 billion)
Equity sponsor: TA Associates
Equity amount: Not disclosed
Debt amount: £510 million including a £425 million non-amortising eight-year senior loan
Mandated lead arrangers: HSBC, The Royal Bank of Scotland
Advisors: Allen & Overy (legal advice to the banks)
PricewaterhouseCoopers (financial due diligence)
LEK (commercial due diligence)