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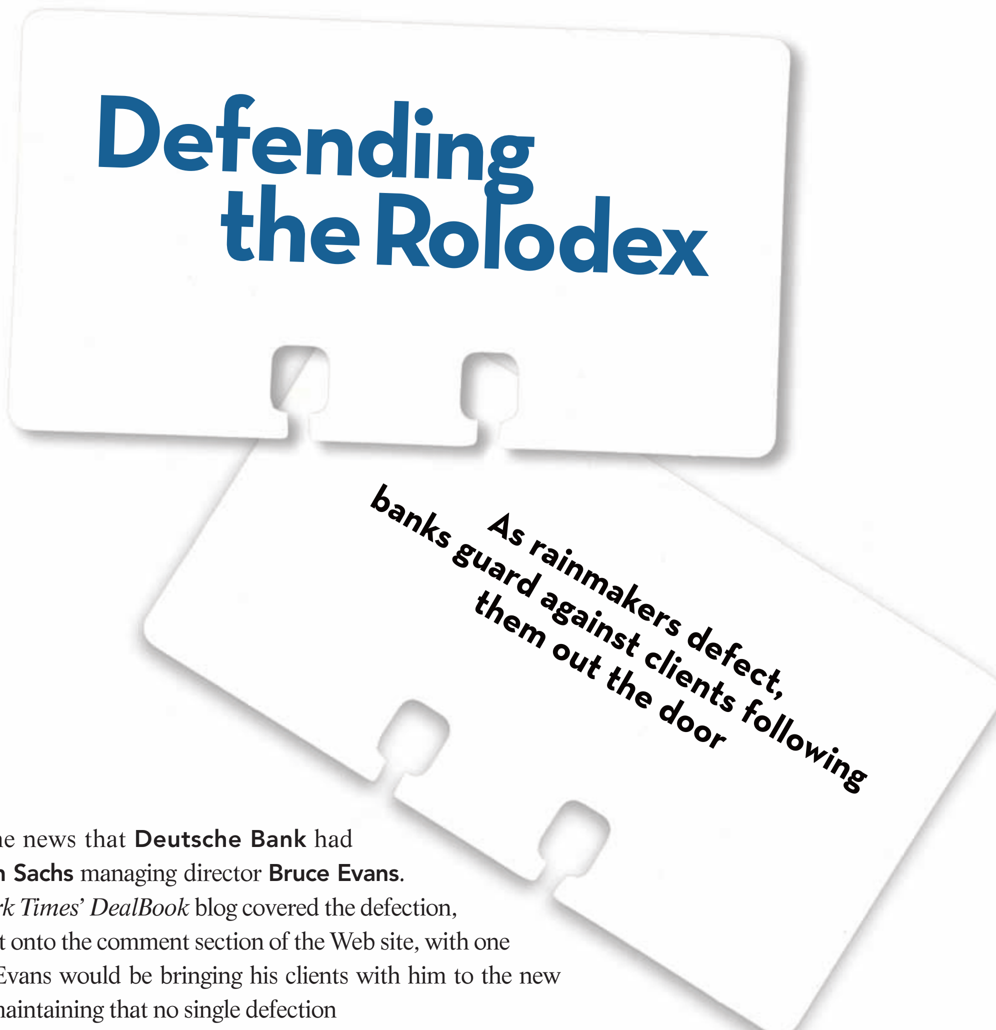

Defending the Rolodex

As rainmakers defect, banks guard against clients following them out the door

By Ken MacFadyen

In early April came news that **Deutsche Bank** had poached **Goldman Sachs** managing director **Bruce Evans**. When the *New York Times*' *DealBook* blog covered the defection, a debate spilled out onto the comment section of the Web site, with one side arguing that Evans would be bringing his clients with him to the new post and the other side maintaining that no single defection would cause clients to abandon Goldman. According to pros in the field, both sides are right, with shades of gray.

This debate has been playing out as long as bankers have been switching hats. The banks, in most cases, assume that when they make a high-profile new hire that client relationships will be part of the package. Conversely, when these same banks lose a top pro to a rival institution, the expectation is clients will remain anchored. "We basically want to have our cake and eat it too," says one recruitment pro.

Tom Angello, meanwhile, a partner at investment banking search firm **The Horizon Group**, adds, "Every single one of my high-level hires is asked to leave everything behind when they come on board. But the expectation is that they'll have total recall."

Normally this double standard is just part of life on Wall Street. Recently, however, these feuds have been finding their way into the courts. Last month, **Calyon**, the corporate and investment banking unit of French bank **Credit Agricole**, sued **Mizuho Securities USA** after Calyon's US CDO team defected en masse to launch a new CDO group within the Japanese bank. Calyon is seeking $650 million in compensatory and punitive damages (*IDD*, "Calyon Cries Foul," 3/26/07).

This past November, meanwhile, the Singapore government backed an unprecedented agreement that implicitly blocks large international banks from targeting talent at two local institutions, DBS and OCBC. The agreement, according to *the Financial Times*, was, in part, a response to **Citibank**'s lawsuit against **UBS**. Citi's claims, which came to light in October, involve seven bankers who left the firm's Singapore branch to join UBS, allegedly bringing client information and customers with them as part of their move.

The Gerson Group's Russ Gerson: 'They've institutionalized the banking function, and that has made the individual that much less important.'

To be sure, the investment banks wouldn't be so protective of their turf if losing top bankers didn't result in a client drain. At the same time, institutions such as **Greenhill & Co.**, the independent investment banking firm launched by **Smith Barney** and **Morgan Stanley** vet **Robert Greenhill** in 1996, understand the importance of importing relationships as a way to build their business. Says Greenhill co-president **Scott Bok**, "Clients and execution expertise are the two things that really mean something to us."

While few banks wanted to talk to *IDD* for this story, proof of Bok's sentiment can be found throughout the industry. **Chris Ricciardi**, currently a star in the CDO marketplace and CEO at **Cohen & Co.**, has managed to find success wherever he has landed, and holding onto his client book has likely played a major role. He led **Credit Suisse**'s CDO business to the top of the league tables, before defecting to **Merrill Lynch** in 2003, bringing numerous clients with him. In short order, Merrill, too, became a top player in the space, and three years later, in an ironic turn, Ricciardi left Merrill to join Cohen & Co., a longtime client. Credit Suisse's CDO group has foundered since Ricciardi's departure, finishing out of the top 10 in the most recent ranking, while Merrill, which managed to hold on to key personnel after Ricciardi left, not to mention Cohen & Co. as a client, remains on solid footing, wrapping up 2006 as No. 1 in the league tables.

"That's a perfect example of a guy that came in and brought his new employer instant credibility," Angello notes.

A big name, however, is no guarantee of success, and cases in which outsized expectations aren't met may actually be far more common. **Perella Weinberg Partners**, for instance, since launching 10 months ago, has welcomed a cavalcade of huge names into its shop. Started by **Joseph Perella** and **Peter Weinberg**, two legends on Wall Street, the fledgling firm has been able to attract a number of Morgan Stanley heavyweights, including the bank's former global head of investment banking **Tarek Adbel-Maguid**, former global head of leveraged finance **William Kourakos**, and former head of European M&A **Paulo Pereira**.

Perella Weinberg has also found success recruiting elsewhere, and lured **Merrill Lynch**'s former head of European investment banking and global co-head of M&A, **Philip Yates**, and **Banc of America Securities**' former head of US M&A **Andrew Bednar**, not to mention former SEC chairman **William Donaldson** and most recently **Bob Boldt**, the former CEO and CIO of the **University of Texas Investment Management Co.**

Yet Perella Weinberg still found itself the subject of a *Fortune* article earlier this month that essentially asked, "Where're the deals?" According to the story, the New York firm has inked just three M&A mandates since its heralded groundbreaking, at a time in the market when deals are plentiful and most major transactions line up as many as six banks to advise in some capacity. The firm declined comment for this story.

Greenhill's Bok, however, notes it can generally take as many as six months to see star recruits translate into high-profile mandates, while **Russ Gerson**, CEO of advisory and executive search firm **The Gerson Group**, estimates it can be as long as one year to 18 months before new hires start paying dividends.

"We have minimal expectations for new recruits in the near term," Bok says. "And six months later, we still won't pressure anyone looking for assignments. Our experience is that new client assignments will come over the long term."

But Bok adds one caveat: "There is a lot more risk around hiring the really big players. When you bring in a huge name, you're making a huge commitment and are creating certain expectations. Those expectations don't always get fulfilled."

Institutionalized Stickiness

One recurring theme Wall Street's headhunters refer to is the "stickiness" that dominates today's market, as client loyalty has become more difficult to pry away from the institution. This, sources say, is no accident, as the big banks have become all things to all clients much in the same way Wal-Mart shoppers can find food, appliances and even get a haircut in some locations. What that means for defecting pros is that while they may have a tight bond with a top client, maintaining that relationship is no sure thing.

"I don't believe anyone owns clients anymore," says **Gary Goldstein**, chairman and CEO at Wall Street recruitment firm **The Whitney Group**. "Any big bank usually has deep roots with their best clients — providing debt, equity, capital markets expertise, making markets in the company's stock — and it's usually too complicated for the companies to uproot that business and move it somewhere else."

Gerson, meanwhile, tells *IDD*, "They've institutionalized the banking function, and that has made the individual that much less important. A corollary is that the client relationships tend to be much stickier with the institutions than they used to be."

In Perella Weinberg's case, this sentiment could be behind its sputtering start. The firm, which offers just corporate advisory and asset management services, could have trouble competing against the likes of Merrill Lynch, Goldman Sachs or Morgan Stanley, which have built their M&A practice around the rest of their business. And with private equity buyers driving much of the M&A activity, cheap debt and idea generation tend to trump relationships when shopping for an adviser. One managing director at a New York investment bank, states, "Ninety percent of what the investment banks do today is bring capital."

A managing director at a large-market LBO shop, meanwhile, confirms: "It's hard for someone to overcome a platform that just isn't that good...We develop relationships with these guys over time, but if there's a guy that's leaving Goldman to join an emerging firm, we'll keep them on a very tight leash. At the end of the day, if they don't have execution capabilities, they'll have a difficult time delivering."

With that said, notable instances do exist in which the move to a smaller platform is viewed in a positive light by clients. When **Jane Wheeler** left Morgan Stanley after 12 years, the banker regularly cited that the move to a boutique would help in her coverage of the securities industry, as some companies in Wheeler's niche might be less inclined to open their books to a possible competitor. Wheeler was hired at **Evercore Partners** as a senior managing director in July, 2005. Shortly thereafter, Wheeler advised **E*Trade Financial** on deals for online brokerage outfits **HarrisDirect**, an affiliate of **Bank of Montreal**, and **JPMorgan** unit **BrownCo**, $700 million and $1.6 billion deals, respectively. Wheeler, most recently, advised the **International Securities Exchange** (ISE) on its $2.8 billion sale to the joint venture between **Deutsche Börse AG** and Switzerland's **SWX Swiss Exchange** last week. (While at Morgan Stanley, Wheeler had overseen the ISE's March 2005 public offering.)

But success after a move is rarely seen that quickly. Contributing to the institutional stickiness is the near universal adoption of "garden leave" agreements for outgoing executives. Ranging anywhere from three to six months, the paid vacation, in which departing pros are barred from contacting colleagues or clients, give Wall Street firms an extended length of time to conduct damage control when top pros leave. (Calyon, it should be noted, had not reached a garden leave agreement with its former CDO team prior to its defection to Mizuho.)

However, it's debatable how much of a deterrent to client defections these agreements provide. Bok concedes it can become "harder to make a smooth transition," but notes that it's nothing that the industry hasn't already gotten used to. Goldstein, meanwhile, describes that the primary objective of garden leave is to block outgoing execs from leaving with deals already in the hopper as opposed to rounding up clients for deals not yet conceptualized. He adds that garden leave agreements may also make a rival think twice about a potential hire. "It shortens the appetite for recruiting," Goldstein says.

One case that has the entire industry's attention, though, is **BlackRock**'s lawsuit against rival **Schroders Plc**, which claims that the UK asset manager poached **Achim Kussner**, the former head of BlackRock's Frankfurt office, and encouraged him to recruit additional BlackRock bodies to fill out the new German team. According to reports, BlackRock is seeking to suspend Kussner from working at Schroders for the time being and is also seeking unspecified damages. What's at stake is how much power garden leave agreements ultimately have.

Rainmaking confined to M&A?

Industry watchers agree that when it comes to holding onto relationships while moving jobs, M&A pros tend to have more luck than executives in other areas of investment banking. "M&A is the one area that sees relationships follow the individual," Goldstein says. "They're selling advice and judgment, and they often have a direct relationship with the board or CEO... And these days, nobody uses just one adviser on any one deal."

However, as a number of Wall Street firms have built out their financial sponsor coverage groups, bringing in top names to do so, they may find that those efforts are in vain, as private equity firms tend to stick with the institution that can provide idea generation and services in other areas. Because of that, firms that hope to see relationships transfer with new hires may find more opportunities in retaining corporate clients. "We try to work more with the Fortune 500 businesses," Bok says, noting, "A critical piece to that is the relationships we have and the ability to execute [as opposed to idea generation]."

In the recent $22 billion purchase of British pharmacy **Alliance Boots** by **Kohlberg Kravis Roberts** and **Pessina**, Europe's largest LBO to date, Greenhill's role was as an adviser to the company's board.

On goes the debate

Generally, it's still an uphill battle for firms to attract clients solely by importing relationships, and most banks, when they lose a top pro, should usually be able to dam client defections with little problem. "When one person leaves, a well run bank shouldn't miss that person for a minute," Angello states.

However, certain names out there leave no question as to their value. UBS's **Ken Moelis**, for example — the banker behind deals such as the recent $25 billion Sallie Mae buyout and separate LBOs for Univision Communications and Harrah's Entertainment — announced he was leaving UBS in March. The consensus is that his contacts will follow. "Now there's an incredible relationship guy," says Goldstein. "The common wisdom is that he will start his own thing and have no problem bringing clients on board."

Apparently, the debate rages on. **IDD**