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In merchant banks of yore, a plan for the future; Window on Wall Street

Dusting off the merchant bank strategy

BY JULIA WERDIGIER
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For Leonhard H. Fischer, chief executive of the European investment company RHJ International, the future of banking lies in the past.

When Kleinwort Benson, the eminent British private banking brand founded more than 200 years ago, went up for sale last year, he did not hesitate to make an offer.

RHJ, a spinoff of the U.S. private equity house Ripplewood, completed the £230 million, or \$360 million, acquisition of Kleinwort Benson in July. Now, Mr. Fischer is betting that the Kleinwort Benson name remains strong enough to attract clients, a business around which he can then build a traditional merchant bank, complete with private banking, asset management and advisory services.

"Our goal is to position Kleinwort Benson back to the future as a classical merchant banking business," Mr. Fischer said. "We want to be niche, opinionated, with a conservative private banking business and highly sophisticated advice. In a world that's defined by uncertainty, this is an old approach that will be modern again."

Mr. Fischer is convinced that there is room in the crowded financial market for a well-capitalized niche player with unique investment ideas. Wealthy clients are seeking a haven for their money outside larger banks tarnished by the financial crisis, he said.

From Kleinwort Benson's headquarters in London, Mr. Fischer hopes to attract the wealthy expatriate community and clients like trust funds, large companies and governments worldwide.

Analysts differ in their assessment of Mr. Fischer's plan, and even Mr. Fischer acknowledges that competition is fierce. JPMorgan Chase, Citigroup and Deutsche Bank have recently stepped up hiring to expand their wealth management operations.

"The incumbents have just become stronger, so it's not easy," said Andrew Lim, a banking analyst at Matrix Group in London.

Kleinwort Benson had about £4.7 billion in assets under management at the end of September, 11 percent less than a year earlier. Revenue dropped to £18 million in the third quarter, 7.7 percent lower than in the period last year.

In October, to strengthen the wealth management business, Mr. Fischer hired Sally Tennant from the Swiss private bank Lombard Odier as chief executive.

Some analysts say that Kleinwort Benson remains a recognizable brand in financial circles, one that could help attract clients. It is also a brand with which Mr. Fischer is familiar. Now 47, Mr. Fischer was in charge of Dresdner Kleinwort from 2000 until 2002, when it was the investment banking unit of Dresdner Bank.

What attracted Mr. Fischer to Kleinwort Benson was not just the "unique opportunity" to buy a prominent brand equal to the likes of SG Warburg, he said; he was "really convinced that we made a very good investment."

"We liked the remaining business mix and the fact that it had a clean and straightforward balance sheet," he said. "It's not one where every morning [redacted] wake up sweating that the regulator would call."

For Kleinwort Benson, the transaction is the latest in a long list of owners since Kleinwort, Sons merged with Robert Benson in 1961. Robert R. Benson had been financing the construction of British railroad lines while Alexander Friedrich Kleinwort started off trading cigars in Cuba before underwriting stock sales, including that of Sears, Roebuck in 1906.

When Prime Minister Margaret Thatcher decided to deregulate the British securities market in the 1980s, an event known in financial circles as the Big Bang, the merchant banking model was threatened. In the years that followed, renowned British banking firms like Morgan Grenfell and SG Warburg disappeared into the hands of European banks seeking to compete with U.S. rivals by offering a broader range of services. Kleinwort Benson was bought by Dresdner Bank of Germany.

It then changed hands twice more, and last year was put up for sale by Commerzbank of Germany as part of a government bailout after losses incurred during the global financial crisis.

So far, Mr. Fischer's career has been almost as tumultuous as Kleinwort Benson's history. The former JPMorgan trader climbed the ranks at Dresdner Bank so quickly that he became the youngest board member in Germany in 1999, at the age of 36. A year later, at the peak of the dot-com boom, Mr. Fischer decided to expand the unit and buy the U.S. advisory boutique Wasserstein Perella for the steep price of about \$1.5 billion.

The acquisition turned out to be costly for the bank and for Mr. Fischer's reputation. Two years later, a disagreement about strategy between Dresdner management in Frankfurt and Mr. Fischer's investment bank in London escalated and Mr. Fischer left for Credit Suisse.

While there, he successfully fixed and then sold the troubled insurance business Winterthur, but his achievement failed to clinch the position of chief executive that he wanted. Mr. Fischer quit and went to RHJ.

Some bankers say that Mr. Fischer paid too much for Kleinwort Benson, especially because he has yet to add services like financial advisory. But Mr. Fischer said his offer was just 10 percent above Kleinwort Benson's net asset value and that his hiring plans in the short-term were restricted to about 15 bankers. "It's wrong to assume that we'll go out and

hire tons of mergers and acquisitions bankers," Mr. Fischer said. "We're not out there to compete on league tables. We'll always be small."

Mr. Fischer added that he saw the future of the company in London, even though bigger banks have threatened to move abroad because of expectations of higher taxes and tighter bonus rules. "This is the place where people want to bank because they feel safe," he said. "We don't need to open offices everywhere around the world."

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